TARGETED JOBS TAX CREDIT EXTENSION

HEARING

BEFORE THE

SUBCOMMITTEE ON
SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

APRIL 10, 1984

Serial 98-90

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
37-427 O WASHINGTON : 1984

H781-13

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TARGETED JOBS TAX CREDIT EXTENSION

TUESDAY, APRIL 10, 1984

House of Representatives,
Committee on Ways and Means,
Subcommittee on Select Revenue Measures,
Washington, DC.

The subcommittee met at 10:11 a.m., pursuant to notice, in room H-137, the Capitol, Hon. Fortney H. (Pete) Stark (chairman of the subcommittee) presiding.

Chairman Stark. The Select Revenue Measures Subcommittee will begin. This morning's hearing is on the extension of targeted jobs credits. Anybody who is anticipating anything other than the targeted jobs credit is wasting their time. That is all we are going to do today. We will take testimony on this bill on the tax credit which is due to expire at the end of the year. This is the first opportunity for the members of the Ways and Means Committee, and this subcommittee in particular, to examine the operation and effectiveness of the credit. Unfortunately, there has been very little information upon which to judge the targeted jobs credit. Since the revenue loss attributed to the credit's extension is substantial, it is my hope that the witnesses today will help fill the vacuum with specific information on just exactly how the credit has been effective in reducing unemployment in the targeted groups or, indeed, creating jobs which would not be created, anyway.

I would like to hear from the industry groups as to what particular incentives this credit would give them to hire new employees as opposed to previously laid off employees who might command a higher wage.

I am pleased to see that, after some early reluctance, the Treasury Department will testify at these hearings. I am disappointed, however, that at this point the Department of Labor, which has the responsibility for the supervision of this program, as they, for instance, supervise some parts of ERISA and other programs with a rather cavalier approach, and has been aggressively pushing for its expansion, has not been willing to testify. It almost seems to me that it is a political adage, if you want to vote, you ought to ask for it.

We have a number of witnesses today and a full committee markup scheduled for this afternoon. I would ask that witnesses adhere to the 5-minute rule as closely as they can. All the printed testimony, or the testimony submitted, will appear in the record in its entirety. If anyone wants to expand on it or supplement it or paraphrase it, it would be appreciated. I ask unanimous consent, without fear of being overridden, that this morning's press release announcing this hearing be made a part of the record.

[The press release follows:]

[Press release of Wednesday, Mar. 28, 1984]

Hon. Fortney H. (Pete) Stark (D. Calif.), Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, Announces a Public Hearing on the Extension of the Targeted Jobs Tax Credit and the Exclusion for Group Legal Services Plans on Tuesday, April 10, 1984

The Honorable Fortney H. (Pete) Stark (D., Calif.), Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, U.S. House of Representatives, announces a public hearing on two extension issues: the targeted jobs tax credit and the income exclusion for group legal services plans. The hearing will be held on Tuesday, April 10, 1984, at 10:00 a.m. in Room H-137 of the Capitol.

In announcing this hearing, Chairman Stark stated, "In view of their year-end expiration, it is appropriate to examine each of these two provisions. Those who advocate an extension of these provisions have the burden of demonstrating the effectiveness of each of these provisions in achieving the policy goals originally intended by Congress."

BACKGROUND

Targeted jobs tax credit (Code sections 44B and 51).—The targeted jobs tax credit was enacted in the Revenue Act of 1978 (Public Law 95-600) to replace the expiring credit for increased employment (the "new jobs credit"). As originally enacted, the targeted jobs credit was available for wages paid before 1982. The availability of the credit was successively extended by the Economic Recovery Tax Act of 1981 (Public Law 97-34) and the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) so that it may now be claimed by an employer for qualified wages paid for services performed in 1985 and 1986 to individuals who begin work for the employer before 1985.

The targeted jobs tax credit is available on an elective basis for hiring individuals from one or more of nine targeted groups. The targeted groups are (1) vocational rehabilitation referrals; (2) economically disadvantaged youths; (3) economically disadvantaged Vietnam-era veterans; (4) Supplemental Security Income (SSI) recipients; (5) general assistance recipients; (6) economically disadvantaged cooperative education students; (7) economically disadvantaged former convicts; (8) Aid to Families with Dependent Children (AFDC) recipients and Work Incentive Program (WIN) registrants; and (9) economically disadvantaged summer youth employees.

The credit generally is equal to 50 percent of the first $6,000 of qualified first-year wages and 25 percent of the first $6,000 of qualified second-year wages paid to a member of a targeted group. Thus, the maximum credit is $3,000 per individual in the first year of employment and $1,500 per individual in the second year of employment. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 85 percent of up to $3,000 of wages for a maximum credit of $2,550. The employer's deduction for wages must be reduced by the amount of the credit.

The Subcommittee is particularly interested in testimony providing information on how effective the credit has been in reducing unemployment in the targeted groups.

Exclusion for group legal services plans (Code sections 120, 501(c)(20), 3121(a)(17), and 3306(b)(12).—Present law provides that amounts contributed by an employer to a qualified group legal services plan for employees (or their spouses or dependents) are excluded from an employee's gross income for income tax purposes (Code section 120) and wages for employment tax purposes (Code sections 3121(a)(17) and 3306(b)(12)). Present law also provides that an organization created exclusively to form part of a qualified group legal services plan may be exempt from tax (Code section 501(c)(20)).

These provisions were first enacted in the Tax Reform Act of 1976 (Public Law 94-455), effective for taxable years beginning after December 31, 1976, and ending before January 1, 1982. The Economic Recovery Tax Act of 1981 (Public Law 97-34) subsequently extended this favorable tax treatment to apply to taxable years ending before January 1, 1985.

The Subcommittee is concerned over the lack of data available to make an informed decision as to whether an extension of the favorable tax treatment for qualified group legal services plans is appropriate. Therefore, the Subcommittee is particularly interested in testimony which documents the extent to which access to legal services has increased among the middle and lower income taxpayers for whom this incentive was intended.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler ((202) 225-3627) no later than close of business, Wednesday, April 4, 1984, to be followed by a formal written request to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. Notification to those scheduled to appear will be made by telephone as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This procedure will afford more time for members to question witnesses. In order to expedite the hearing, witnesses may be grouped as panelists with strict time limitations for each panelist.

Requests to be heard must contain the following information: (1) The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached); (2) A list of any clients or persons, or any organization for whom the witness appears; and (3) A topical outline or summary of comments and recommendations.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the written record of the hearing.

In order to assure the most productive use of the limited amount of time available to question witnesses, witnesses scheduled to appear before the Subcommittee must comply with the following rules: (1) All witnesses must submit 75 copies of their prepared statement to the full Committee office, Room 1102, Longworth House Office Building, not later than the close of business, Friday, April 6, 1984. (2) Witnesses should not read their written statements to the Subcommittee, but should instead limit their oral presentations to a summary of the points included in the statement. (3) Not more than five minutes will be allowed for the oral summary.

The Subcommittee wishes to emphasize that failure to comply with these requirements may result in the witnesses being denied the opportunity to testify in person or being deferred until all other testimony is heard.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

For those who wish to file a written statement for the printed record of the hearing, five copies are required and may be submitted to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102, Longworth House Office Building, Washington, D.C. 20515, by close of business, Tuesday, April 24, 1984. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Committee office before the hearing begins.

Chairman STARK. Congressman Boehlert, I understand, is here, and we will call him for our first witness. If other Members arrive during the course of other panel testimony, we may ask them to step in and fill in.

The distinguished gentleman from New York, Sherwood Boehlert, will be our first witness this morning. Good morning and welcome to the subcommittee. If you have a prepared statement, which I notice you do, it will appear in the record in its entirety.

If you will suspend for just a moment.

Good morning, Mr. Duncan. Do you want to add some words of wisdom?

Mr. DUNCAN. No, thank you.

Chairman STARK. Mr. Duncan will save his words of wisdom, and you may proceed in any manner you prefer.

STATEMENT OF HON. SHERWOOD L. BOEHLERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Boehlert.** Thank you, Mr. Chairman. I will adhere to your 5-minute rule.

I appreciate the opportunity to testify before you today about an issue that should be continuing at the top of our list of domestic concerns; that is, cutting unemployment.

With the economy on a remarkably robust upward path, we don't see much news on the plight of the unemployed any more. But the problems of unemployment, if forgotten, are not gone.

Almost 9 million Americans who want to work still cannot find jobs. Many of these job hunters suffer from a common difficulty: They lack the training needed to get hired in an increasingly technological economy.

Lack of training is the basic problem for the unemployed who fall into the new and growing category of "displaced worker"—those whose jobs skills have become obsolete. And lack of training is the basic problem for other groups—youths are a prime example—who have never had any job skills to begin with and are rapidly becoming a permanent underclass.

In short, we are facing a real problem, a serious problem, and the solution, it seems to me, is readily apparent: We need to provide training.

The targeted jobs tax credit does just that. Indeed, it is a model program. The credit helps provide training and employment for those most in need, but leaves decisionmaking where it belongs—in the private sector.

The program has another advantage. It is effective. In New York State, for example, the program was responsible for the hiring of 30,181 target group members in fiscal year 1983 alone. Since the credit's inception, more than 20,000 businesses in New York State have used the credit to hire approximately 84,000 workers—workers who probably would not otherwise have been hired.

We should not allow such a successful, useful program to expire. What we should be doing is looking for additional programs that would encourage the private sector to provide the job training needed to put America back to work.

I am identified with a bill that would create one such program. The bill is H.R. 4832, the Individual Training Account Act of 1984.

The bill is a perfect complement to the targeted jobs tax credit. The credit attacks the immediate problem of finding jobs for the unskilled. Individual training accounts—or ITA's—would attack the longer range problem of displaced workers.

ITA's would enable workers to ensure themselves against future job loss. Like the targeted jobs tax credit, the bill would create tax incentives to encourage the private sector to provide training.

Here is how the accounts would work: Employers and employees would each contribute eight-tenths of 1 percent of the employee's salary or $250, whichever is less, every year. The contributions would be tax deductible, and the interest on the accounts would be tax-free. Contributions would cease when the account reached $4,000.

Workers would be able to draw on the account without incurring any tax liability if they were laid off. The money would have to be used to pay for a Government-certified retraining program or for approved relocation expenses up to $1,000.

If an employee never needed to tap the account, his or her contribution, plus interest, would be refunded upon retirement. That money could be drawn upon like an IRA.

ITA's would help secure our Nation's economic future by enabling the Nation's workers to secure their economic futures. If we don't act now, we'll pay later.

I realize there is a healthy skepticism today about any measure that would deprive our deficit-ridden Government of revenue. But any revenue loss from the targeted jobs tax credit, or ITA's, would be offset by the effect of putting more Americans to work. There is no conflict between our humanitarian and our economic goals.

And our goal is clear: We must make sure we don't face the unemployment problem in 1992 that we faced in 1982. We can only achieve that if we plan now for the changing economy of the future. Forward-looking programs like the targeted jobs tax credit and ITA's will ensure that economic change does not leave millions of Americans behind.

With that, I have adhered to my 5-minute rule, Mr. Chairman.

Chairman STARK. Thank you very much.

Mr. Duncan?

Mr. DUNCAN. I have no particular questions, other than to thank you for an excellent statement. You have certainly given us a lot to think about, as you usually do, and we are looking forward to your further contribution as we move forward on this bill. I think it is very important.

Mr. BOEHLERT. Thank you very much.

We will have some excellent testimony from our State commissioner of labor about the Targeted Jobs Tax Credit Program and its success in New York.

Mr. DUNCAN. We will look forward to that. Thank you.

Chairman STARK. I gather you say that your people from the New York State Labor Department will give us more information on the makeup of the 30,000 jobs and the types of businesses.

Mr. BOEHLERT. Yes, Mr. Chairman. I read the statement. It is a very comprehensive statement. And it is a positive one. You will like it.

Chairman STARK. I appreciate your taking the time to join us this morning. Thank you very much.

Mr. BOEHLERT. Thank you very much.

Chairman STARK. Is Congressman Durbin here?

[No response.]

Chairman STARK. Why don't we hear from Secretary McLure, Deputy Assistant Secretary for Tax Analysis in the Treasury.

Welcome to the committee, Mr. McLure. As we generally do with the administration, we will count very slowly in the 5-minute rule. Your full statement will appear in the record, and if you would like to expand on it or summarize it in any way you are comfortable by proceeding, please do as you wish.

STATEMENT OF CHARLES E. McLURE, JR., DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. McLure. Thank you, Mr. Chairman.

I am pleased to appear today before you to discuss the Targeted Jobs Tax Credit Program, which is scheduled to expire at the end of this year.

The administration has proposed a 1-year extension of the existing credit to enable us to collect more information about the effectiveness of the program. Although the program has been in existence now for 5 years, its design was changed significantly in 1981. Data on the program since the 1981 amendments are limited, but more will be available next year.

The administration opposes a longer extension or any expansion of the program until additional data can be analyzed to determine the benefits and costs of this particular labor market program. We estimate that a 1-year extension of the existing credit would cost $1.15 billion of lost revenue.

The targeted jobs tax credit was enacted in 1978 as a substitute for the new jobs tax credit which had been available to firms that expanded their total employment during 1977 or 1978. The targeted jobs tax credit is intended to assist hard-to-employ individuals find employment in the private for-profit sector.

The credit is available for taxable employers who hire individuals from any of nine targeted groups, basically recipients of payments of means tested transfer programs, members of economically disadvantaged families, or disabled persons. The largest eligible group is economically disadvantaged youth age 18 through 24 whose family income was less than 70 percent of the Bureau of Labor Statistics lower living standard during the prior 6 months.

The credit is generally equal to 50 percent of an eligible individual's first $6,000 of wages in the first year of employment. In the second year of employment, the credit is equal to 25 percent of the first $6,000 of wages. The credit for economically disadvantaged summer youth employees age 16 or 17 is equal to 85 percent of the first $3,000 of wages earned between May 1 and September 15.

The employer's deduction for wages and salaries must be reduced by the amount of the tax credit. This keeps the rate of subsidy constant at the stated percentage, irrespective of the employer's marginal tax rate.

In 1981, the targeted jobs tax credit was made more likely to be an effective hiring incentive. Prior to the amendments of 1981, employers often had individuals certified as eligible for the credit after they were already on the payroll. Current law requires that employers have or request in writing eligibility determinations of employees on or before the day the individual begins work for the employer.

The only data currently available on the effectiveness of the targeted jobs tax credit after 1981 is from employer questionnaires. While information from employers who are using the credit may indicate the impact of the credit for their particular firms, we caution against any generalization from the credit's impact on participating employers to the economy as a whole.

For employers who claim the credit, the credit has the desired effect of providing an incentive to expand the number of eligible individuals employed. Lower effective wage costs encourage employers to hire eligible individuals in lieu of other factors of production. Further, the reduced wage cost may enable these employers to expand their output and thus their total employment.

Questionnaire results, however, present an incomplete picture of the impact of a Government subsidy program. Employers not participating in the program report no effect of the program on their business. Yet the cost of the Government program must be financed in some manner, either through higher taxes, lower Government outlays, or increased Government borrowing.

Higher taxes to finance the credit result in lower output and employment in other sectors of the economy which roughly offset any higher output and employment reported in questionnaires by businesses using the credit.

It is important to recognize that the targeted jobs tax credit may not create new jobs or, if it does, they may be fewer in number than the increase in targeted employment. This occurs because the credit results in a reallocation of employment between targeted workers and nontargeted workers.

There may be significant social benefits achieved from targeted workers finding employment in the private for-profit sector of the economy. These social benefits include gaining economic self-sufficiency for individuals who have been dependent on welfare or for young persons from economically disadvantaged families who may never become part of the mainstream labor force if unsuccessful in gaining employment at an early age.

In measuring the social benefits, one must estimate the number of targeted workers who found employment with the credit who would not have found employment otherwise. The number of eligible workers who find employment as a result of a subsidy is only a portion of the total number of workers for whom the credit is claimed. This is because many of the eligible workers would have been hired by the same employer, or by another employer, without the benefit of the credit.

The targeted jobs tax credit has some social costs in addition to the loss of Federal revenue. To the extent that employers increase their hiring of eligible individuals as a result of the credit, they will do so by substituting for other factors of production.

To the degree that such substitution takes place, it is likely to come at the expense of other low-income workers who do not qualify for the credit but have similar job skills as the targeted groups.

The substitution of targeted workers for other workers does not necessarily mean that other workers are laid off by an employer; the substitution is more likely to occur through the job hiring process, where a targeted worker is hired in lieu of a nontargeted worker. Loss of employment by other unskilled workers is a social cost that must be set off against any benefits of increased employment of eligible workers.

There is only limited information about the experience with the credit since the 1981 changes. The main information about the program is the number of Labor Department certifications of eligible individuals who found employment.

The Labor Department has estimated that between 2.4 and 3 million economically disadvantaged youth were hired in 1981. In fiscal year 1983, there were 259,000 certifications of economically disadvantaged youth. Assuming that the same number of economically disadvantaged youth were hired in 1980 and 1983 implies a 1983 participation rate of some 9 to 11 percent of eligible hires. In other words, 9 out of 10 economically disadvantaged youth who were eligible for the credit found employment in the private for-profit sector without the benefit of the targeted jobs tax credit.

The low participation rate suggests that there could be enormous growth in the use of this subsidy program if employers checked the eligibility of workers whom they currently hire without the subsidy. If personnel departments paid more attention to the number of workers for whom the credit could be claimed, the participation and cost of the program could increase tenfold without any increase in the number of targeted workers hired.

No single explanation can be cited for the credit's low participation rate. It is clear that the certification system leaves much of the burden of identifying eligible workers on employers and that many employers are not familiar with the targeted jobs tax credit. The cost of identifying eligible individuals and the credit limit reduce the net value of the credit for many employers.

It is important for Congress and the administration to review the new information on the credit that will become available during the next year and attempt to quantify the benefits from increasing the employment of the targeted groups as well as the direct and indirect costs of the program.

For this reason, the administration supports a one-year extension of the targeted jobs tax credit program but would oppose a longer extension or any expansion of the program.

Thank you.

[The prepared statement follows:]

STATEMENT OF CHARLES E. MCLURE, JR., DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. Chairman and members of the committee, I am pleased to appear today to discuss the targeted jobs tax credit program, which is scheduled to expire at the end of this year.

The Administration has proposed a one-year extension of the existing credit to enable us to collect more information about the effectiveness of the program. Although the program has been in existence now for five years, its design was changed significantly in 1981. Data on the program since the 1981 amendments are limited, but more will be available next year. The Administration opposes a longer extension or any expansion of the program, until additional data can be analyzed to determine the benefits and costs of this particular labor market program. A one-year extension of the existing credit would cost $1.15 billion of lost revenue.

BACKGROUND AND CURRENT LAW

The targeted jobs tax credit (TJTC) was enacted in 1978 as a substitute for the new jobs tax credit which had been available to firms that expanded their total employment during 1977 or 1978. The new jobs tax credit cost at least $9.7 billion, during its two-year life. Carryovers of the credit are still being claimed on current tax returns.

The TJTC is intended to assist hard-to-employ individuals find employment in the private for-profit sector. The credit is available for taxable employers who hire individuals from any of nine targeted groups. Target group members are either recipients of payments of means-tested transfer programs, members of economically disadvantaged families, or disabled persons. The largest eligible group is economically disadvantaged youth age 18 through 24 whose family income was less than 70 percent of the Bureau of Labor Statistics lower living standard during the prior six months.

The credit is generally equal to 50 percent of an eligible individual's first $6,000 of wages in the first year of employment. In the second year of employment, the credit is equal to 25 percent of wages. The maximum credit is thus $3,000 per individual in the first year of employment and $1,500 in the second. The credit for economically disadvantaged summer youth employees age 16 or 17 is equal to 85 percent of the first $3,000 of wages earned between May 1 and September 15, for a maximum credit of $2,550 per employee. The employer's deduction for wages and salaries must be reduced by the amount of the credit; this keeps the rate of subsidy constant at the stated percentage irrespective of the employer's marginal tax rate. In the case of economically disadvantaged summer youth employees, the credit reduces the wage cost of a minimum wage worker to 50 cents an hour.

In 1981, the TJTC was extended for one year. The 1981 amendments limited the subsidy for cooperative education students to economically disadvantaged students. The 1981 amendments also made the TJTC more likely to be a hiring incentive. Prior to the amendments, employers often had individuals certified as eligible for the credit after they were already on the payroll. The credit in most cases thus did not influence the employers' hiring decisions. Current law requires that employers have or request in writing eligibility determinations of employees on or before the day the individual begins work for the employer. Eligibility determinations are performed by the State employment security agencies.

In 1982, the credit was extended to cover eligible workers hired through the end of 1984. The credit will continue to be available through the end of 1986 on these workers, because employers can earn the credit on wages paid during the first two years of an eligible individual's employment. The extension was part of a larger revenue raising package with a goal of $99 billion over a three-year period. The extension of the credit was, in effect, paid for by higher taxes collected elsewhere in the economy in order to raise a predetermined level of revenue in the 1982 legislation.

ANALYSIS

The only data currently available on the effectiveness of the targeted jobs tax credit after 1981 is from employer questionnaires. While information from employers who are using the credit may indicate the impact of the credit for their particular firms, we caution against any generalization from the credit's impact on participating employers to the economy as a whole.

For employers who claim the credit, the credit has the desired effect of providing an incentive to expand the number of eligible individuals employed. Lower effective wage cost may enable these employers to expand their output and thus their total employment. These are the expected substitution and scale effects that occur from any subsidy, according to economic theory. An individual employer could accurately state that the credit increased the number of both his targeted and non-targeted employees.

Questionnaire results, however, present an incomplete picture of the impact of a government subsidy program. Employers not participating in the program report no effect of the program on their business. Yet, the cost of the government program must be financed in some manner, either through higher taxes, lower government outlays, or increased government borrowing. Higher taxes to finance the credit result in lower output and employment in other sectors of the economy, which offset any higher output and employment reported in questionnaires by businesses using the TJTC.

It is important to recognize that the targeted jobs tax credit may not create new jobs, or if it does, they may be fewer in number than the increase in targeted employment. This occurs because the credit results in a reallocation of employment between targeted workers and non-targeted workers. There may be significant social benefits achieved from targeted workers finding employment in the private for-profit sector of the ecomomy. These social benefits include gaining economic self-sufficiency for individuals who have been dependent on welfare or young persons from economically disadvantaged famililes who may never become part of the mainstream labor force if unsuccessful in gaining employment at an early age.

In measuring the social benefits, one must estimate the number of targeted workers who found employment with the credit who would not have found employment otherwise. The number of eligible workers who find employment as a result of the subsidy is only a portion of the total number of workers for whom the credit is claimed. This is because many of the eligible workers would have been hired by the same employer or by another employer without the benefit of the credit.

The TJTC has some social costs in addition to the loss in Federal tax revenue. To the extent that employers increase their hiring of eligible individuals as a result of the credit, they will do so by substituting for other factors of production. To the degree that such substitution takes place, it is likely to come at the expense of other low-skilled workers, who do not qualify for the credit but have similar job skills as the targeted groups.

The substitution of targeted workers for other workers does not necessarily mean that other workers are laid off by an employer; the substitution is more likely to occur through the job hiring process where a targeted worker is hired in lieu of a non-targeted worker. Loss of employment by other unskilled workers is a social cost that must be set off against the benefits of increased employment of eligible workers.

CERTIFICATION DATA AND PARTICIPATION IN THE PROGRAM

There is only limited information about the experience with the TJTC since the 1981 changes. The main information about the program is the number of Labor Department certifications of eligible individuals who found employment. Income tax return data from the Internal Revenue Service show which types of employers claim the credit, but that information is not yet available for the program since the 1981 amendments, due to the normal delays in filing and processing of tax return data.

The Labor Department has estimated that between 2.4 and 3.0 million economically disadvantaged youth were hired in 1981. During fiscal year 1981, there were 176,000 certifications for economically disadvantaged youth, or a participation rate of 6 to 8 percent of the eligible hires. Estimates of the participation rate for several other currently eligible groups were not greater than 10 percent. In fiscal year 1983, there were 259,309 certifications of economically disadvantaged youth. Assuming that the same number of economically disadvantaged youth were hired in 1981 and 1983 implies a 1983 participation rate of 9 to 11 percent of eligible hires. In other words, nine out of ten economically disadvantaged youth, who were eligible for the credit, found employment in the private for-profit sector without the benefit of the TJTC.

The low participation rate suggests that there could be enormous growth in the use of this subsidy program if employers checked the eligibility of workers whom they currently hire without the subsidy. The 1981 amendments prevent an employer from requesting an eligibility determination after the employee's first day of work, but an employer could have the employee's background checked between the hiring date and employment date or simply request an eligibility determination on or before the starting date of employment. If personnel departments paid more attention to the number of workers for whom the credit could be claimed, the participation and cost of the program could increase ten-fold without any increase in the number of targeted workers hired.

No single explanation can be cited for the credit's low participation rate. It is clear that the certification system leaves much of the burden of identifying eligible workers on employers and that many employers were not familiar with the TJTC. The cost of identifying eligible individuals and the tax credit limit reduce the net value of the credit for many employers. Other possible explanations for the low participation rate include: inadequate implementation of the credit by the administering agencies; disadvantages of administering the subsidy; through the tax system; and possible negative stereotypiing of TJTC eligibles.

CONCLUSION

The TJTC is intended to increase the employment of targeted workers. The tax credit will increase the number of targeted workers hired by firms claiming the credit, but there will be less output and employment in other sectors of the economy as a result of financing the credit. Nonetheless, there may be social benefits from the targeted groups entering the private sector work force at an early age or from making them less dependent on direct Federal transfer programs.

The increase in targeted employment due to the credit is only a portion of the total number of workers for whom the credit is claimed. The credit provides an incentive for employers to substitute targeted workers for other factors of production. While the evidence is not yet clear, the substitution is most likely to occur between targeted workers and other low-skilled workers. One of the difficulties in designing a targeted subsidy is the close similarity and substitutability of eligible and ineligible individuals.

In 1983, approximately nine out of ten eligible targeted workers found employment without the benefit of the credit. Participation in the credit could increase greatly if employers simply claimed the credit for workers whom they currently hire without the credit.

It is important for Congress and the administration to review the new information on the credit that will become available during the next year and attempt to quantify the benefits from increasing the employment of the targeted groups as well as the direct and indirect costs of the program. For this reason, the Administration supports a one-year extension of the targeted jobs tax credit program, but would oppose a longer extension or any expansion of the program.

Chairman STARK. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. Secretary, you indicated that perhaps 9 or 11 percent of eligible hires participated successfully in the program.

Mr. MCLURE. The figure was that some 9 to 11 percent of the total number of disadvantaged youth who were hired.

Mr. DUNCAN. The other 9 of 10, or 80 to 90 percent, were they successful in securing employment without the program?

Mr. MCLURE. Yes. In other words, there were some 2.4 million to 3 million disadvantaged youth who were hired, and of these, only 259,000 were actually hired as part of this program. So, in other words, the other 90 or so percent were being hired without the benefit of the program.

Mr. DUNCAN. But you do have that record?

Mr. MCLURE. Yes.

Mr. DUNCAN. Your record does show that at least 10 percent were successful?

Mr. MCLURE. Yes, sir. The 259,000 would be roughly 9 to 11 percent.

Mr. DUNCAN. I think that is all I have, Mr. Chairman. Thank you.

Thank you, Mr. Secretary.

Chairman STARK. Mr. Secretary, could you give me kind of a review of where the joint study by the Departments of Treasury and Labor, which was due in June 1981, is? And I would obviously anticipate it is all the Labor Department's fault. [Laughter.]

But to the extent that your half of the study is done, could you kind of give us a review of where it is and what kinds of problems you are having with it and when we might expect it?

Mr. MCLURE. My understanding is that a draft has been completed. It has not been finally cleared by the administration. I cannot tell you exactly when we will have it to you.

Chairman STARK. How about giving us a little hint as to what the draft might show us? I am sure there may be some alternatives if you don't want to really—are there some areas that you don't think will be covered in testimony today that, without prejudicing the draft, you might go into?

Mr. MCLURE. I think I would rather not try to give you a preface of what is in the report. I think what I would like to emphasize is that that report will describe the success under the program only up to 1981, and, of course, the program was changed significantly in 1981.

I think probably as a result this will reduce somewhat the usefulness of the report when it is available.

Chairman STARK. Some proponents of the jobs credit say that it pays for itself out of the secondary and tertiary returns—for instance, increasing income tax and reducing welfare and unemployment benefits, and so forth and so on. Does the report talk to that, or do you know whether that is true or not?

Mr. McLURE. I don't think I would care to speculate on that one.

Chairman STARK. You haven't taken account of any secondary revenue effects?

Mr. McLURE. My staff tells me that to the extent that there are effects on income tax receipts, we do take those into account as being an offset to the cost. We do not take into account the reductions in welfare dependency.

Chairman STARK. Would you or Tom agree that, in very round figures, a 5-year extension through 1989 would cost us about $3.5 billion and a 3-year extension about $2.8 billion; and a 1-year extension, as the administration recommends, would cost about $1.2 billion? Is that a ballpark estimate?

Mr. McLURE. I think we would expect it to be somewhat higher than that because of the increase in the number of certifications.

Chairman STARK. Somewhat? I mean 10, 20, 50 percent higher?

Mr. McLURE. Let us provide an estimate for the record on that.

Chairman STARK. All right.

[The information follows:]

DEPARTMENT OF THE TREASURY,
Washington, DC.

Hon. FORTNEY H. STARK,
House of Representatives,
Washington, DC.

DEAR MR. STARK: The Department of the Treasury testified for a one-year extension of the Targeted Jobs Tax Credit (TJTC) at the Select Revenue Measures Subcommittee hearing on April 10. You asked what would be the total cost of a three-year and five-year extension of the credit. We have estimated that the total revenue loss for one-year, three-year, and five-year extensions would be $1.2 billion, $4.4 billion, and $8.8 billion, respectively. The revenue loss during Fiscal Years 1985–1989 would be $1.1 billion, $3.7 billion, and $4.9 billion, respectively, because some credits would be claimed after that period.

I have asked the Labor Department to respond directly to your request for information about which TJTC-eligible individuals are eligible for other Federal employment programs and Mr. Duncan's question about the percentage of youth who were unemployed by choice.

Sincerely,

CHARLES E. McLURE, Jr.,
Deputy Assistant Secretary.

DEPARTMENT OF THE TREASURY,
Washington, DC.

Mr. DANIEL BENJAMIN,
U.S. Labor Department,
Washington, DC.

DEAR DAN: On April 10, 1984, I testified on the Targeted Jobs Tax Credit (TJTC) before the Subcommittee on Select Revenue Measures of the House Ways and Means Committee. Two questions were asked which I was unable to answer on which the Labor Department would have the data and expertise. Chairman Stark asked which members of the TJTC-eligible population are eligible for other Federal employment programs. Congressman Duncan asked for any statistics on the percentage of youth who were unemployed "by choice". I would appreciate your providing the requested information directly to the Subcommittee for inclusion in the record by May 11. I have enclosed a copy of the transcript.

Sincerely,

CHARLES E. MCLURE, Jr.,
Deputy Assistant Secretary.

Chairman STARK. We now spend about $4 billion on a variety of employment programs for the disadvantaged? Would you say that is a fair estimate of the various programs that we have in place now?

Mr. MCLURE. I am not sure.

Chairman STARK. Are you familiar with the various employment programs that the Federal Government subsidizes or pays for?

Mr. MCLURE. No; primarily on the tax side, sir.

Chairman STARK. Then I don't suppose you are able to speak to what this particular program would add or whom it would touch that present programs don't. Would that be outside your——

Mr. MCLURE. I would like to get back to you on that.

Chairman STARK. Do you have any suggestions other than, as you said in your testimony, holding it to 1 year, in terms of any changes that ought to be made in the program?

Mr. MCLURE. The administration has suggested that we change the certification period to make it possible for the employer to request certification within 5 days rather than to have that on file on the day of employment.

Chairman STARK. You don't think that that would lead to coaching the particular employee in terms of eligibility? You are not a suspicious fellow.

Mr. MCLURE. I think part of the problem is simply that it is a burden to have to actually get that certification or the request for certification done on the very day of employment, particularly if you are talking about casual, day-to-day employment.

Chairman STARK. Do you know, or does your study tell us, the length of time, with the exception of the summer work programs, what percentage of new hires go on to the second year? Is there a drop?

Mr. MCLURE. No, we don't have that information yet.

Chairman STARK. But you think that it would make sense, if in fact you found a large dropoff in the second year—people participating in the program 1 year or less—to reverse the incentives? The object of the program is to create long-range jobs. Therefore, why not make it 25 percent in the first year and increase the credit in the second year to put some incentive on the employer to hire those people who would normally work into more secure and permanent jobs? Would that make sense to you?

Mr. MCLURE. I believe that the reasoning behind the scaling down would be that during the first year, the employee would develop work habits and skills that he or she did not come with, and that it would be very important to have the high percentage subsidy during the first year, and that that could be reduced during the second year.

Chairman STARK. But if your study showed that people were just feeding low-skilled people in and then letting them go and taking a second person rather than continuing them 2 years, because they obviously get double the tax credit if they turn them over every year, incentives being what they are, and human nature, like progressive tax rates and so forth, that we might encourage them to invest a little along with us and then pay them that bonus in the second year when they in fact have a more permanent employee?

Mr. **McLure**. Well, I believe, if the program has been successful, then it may be that the 50-percent subsidy paid in the first year would not be necessary; that indeed it would be uneconomical for someone to go to the trouble of having someone on the work force with a 50-percent subsidy and then, once they become productive, to discharge them and hire someone else in order to get the 50-percent subsidy. It would probably be more economical in many circumstances to continue the same employee with only the 25-percent subsidy.

Chairman **Stark**. Just one further question. Do you have any knowledge or any thoughts on why we not only target individuals but also target areas of high unemployment? It would seem that it would be far more effective in those areas of high unemployment. It would encourage, perhaps, even some revitalization of industry, much like enterprise zones, to which the administration so zealously subscribes.

Mr. **McLure**. I do not know, personally. We would have to check the legislative history on that.

Chairman **Stark**. Mr. Duncan?

Mr. **Duncan**. Some time back at the hearings, someone mentioned that about 1.5 to 2 percent of the people were actually unemployed by choice. Do you have any statistics in the Department that are available to show whether, particularly in the youth unemployment, some people are unemployed by choice and whether we do offer some incentives for people not to work? Has there ever been a study made of that?

Mr. **McLure**. We don't have those statistics, ourselves. We could check with the Labor Department and submit something for the record on that.

Mr. **Duncan**. Thank you.

[The following information was subsequently received:]

Question. Which members of the Targeted Job Tax Credit eligible population are eligible for other Federal employment and training programs?

Answer. Nearly all members of the TJTC eligible population are eligible for one or more other Federal employment and training programs, including the Jobs Training Partnership Act (JTPA), the Work Incentive Program (WIN), and the Older Americans jobs program. These other employment and training programs, however, either create jobs in the public sector (Older Americans) or train people for jobs in the private sector. In contrast, the TJTC program attempts to create jobs in the private sector for specific groups with employment handicaps, by providing a tax credit to employers. In addition to the difference in approach, the non-TJTC programs are not funded at levels that would allow all members of the eligible populations to be served. As a result, the TJTC program can be viewed as a complement to other Federal employment and training programs, as opposed to a duplication of such program.

In general, an individual is a member of a TJTC eligible population group if such individual is: (1) a vocational rehabilitation referral; (2) an economically disadvantaged youth; (3) an economically disadvantaged veteran; (4) an SSI recipient; (5) a general assistance recipient; (6) a youth participating in a cooperative education program; (7) an economically disadvantaged ex-convict; (8) a person eligible for WIN; or (9) involunatrily terminated CETA employee.

Thus, all individuals eligible for the WIN program are also eligible for TJTC. Individuals who are eligible both for the Older Americans program (disadvantaged adults age 55 or over) and the TJTC program are likely to be those who are either SSI and general assistance recipients.

Nearly all TJTC groups are explicitly covered under JTPA because they are either disadvantaged or welfare recipients. The exceptions are former CETA employees and the non-disabled in cooperative education programs. Even these latter groups, however, may receive JTPA services.

Under JTPA, the term "economically disadvantaged" means an individual who receives welfare payments, has a income below the poverty level, is a Food Stamp recipient, a foster child or is an handicapped individual. Moreover, it is possible for non-economically disadvantaged individuals to receive JTPA services. JTPA provides that, in addition to the unemployed and economically disadvantaged, up to 10 percent of the participants in all programs in a service area may be individuals who are not economically disadvantaged but have encountered barriers to employment. Such individuals are those who have limited English-language proficiency, displaced homemakers, school dropouts, teenage parents, the handicapped, older workers, veterans, offenders, alcoholics, or addicts.

Question. Are there any statistics on the percentage of youth who are unemployed "by choice".

Answer. The unemployed are defined to include persons who do not work but have searched for work in the past four weeks. Individuals who do not work but are not seeking work are classified as out of the labor force. Counted among the unemployed, however, are "job leavers"—individuals seeking work who voluntarily quit their previous jobs. In 1983, job leavers accounted for .7 percentage points of the average annual unemployment of 9.6 percent. Among teens, job leavers accounted for 1.3 percentage of the annual average teen rate of 22.4 percent.

Chairman STARK. Mr. Secretary, thank you very much. Our next witness is the Honorable Richard Durbin from the State of Illinois. Welcome to the committee.

Mr. DURBIN. Thank you very much.

Chairman STARK. We will make your printed testimony a part of the record in its entirety, without objection, and you may expand on it, summarize it, or read it, as you wish to proceed.

STATEMENT OF HON. RICHARD J. DURBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. DURBIN. I will try to follow the committee chairman's admonition and keep it mercifully brief, and I hope to hit on a few points that I think are important as we consider this important legislation.

I think the committee is moving in the right direction in its goal to extend the Targeted Jobs Tax Credit Program. I think it is an important component in our Nation's overall strategy to deal with the unemployment problem.

We are told that the economy is moving out of recession and into recovery. There are pockets of our economy which clearly have not responded. In my area of central and western Illinois, we are faced with still chronic unemployment due to both disadvantaged and dislocated workers.

It is interesting to me that the Congressional Budget Office estimates that about 25 percent of the people presently unemployed will never return to the same job that they had. I think this points to a special problem that we are facing.

Earlier in the term, I appointed a Small Business Advisory Committee within my district, and we met with representatives of the chambers of commerce and the various businesses across the district to discuss business issues facing the 20th Congressional District in Illinois.

One of the things we discussed was the Targeted Jobs Tax Credit Program. There was one member of my Small Business Advisory Panel, who mentioned the program in particular, and I asked her if she had ever used it. She said yes, she had, and she thought with some degree of success. She had found a young lady who was trying to raise two small children on public aid, and she brought her into her floral shop and started her to work making floral arrangements. The new employee was doing a great job and was receiving better than a minimum wage in the process, but realized after a week of employment that her employer, even with the targeted jobs tax credit, would be unable to offer her any kind of hospitalization assistance at that wage level.

The mother at that point realized she was about to lose her green card and all medicaid benefits, and with a child who had had some medical problems, she made the decision I think everyone would make in that circumstance. She made sure that her child's hospitalization would sbe covered by dropping out of the work force and leaving the job.

I do not raise that with the suggestion that your hearings before this committee are going to resolve that kind of problem, because it not only relates to a secondary concern but one that I think is best addressed at the State level—medicaid eligibility.

But I think it does point to the frustration we are faced with when we try to take a snapshot picture of various parts of the economic problem facing us, and in resolving the problem, not realize what other elements are going to work in and against us.

This whole question of health care, I think, is going to be an important element in it. I might also add that I think the question of disadvantaged workers is one that we have all got to face in this country. We have, certainly, the kinds of unemployment rates among the disadvantaged, among minorities and the like, that are addressed by the Targeted Jobs Tax Credit Program and should be continued. I think it is a good investment in the future of our country.

I would like to also call the attention of the committee, though, to the problem of the dislocated worker, that worker who has done the "right" thing for so many years—the 50-year-old assembly line worker who has done it all by the book, worked hard, paid his taxes, kept up his mortgage payments, and is now being told that his skills are obsolete in the workplace.

I would like to ask the committee to consider as part of this integrated approach to our problem some legislation that has been introduced by myself and Congressman Boehlert of New York, which creates what is known as the individual training account.

I think, though, neither of these programs—targeted jobs tax credits nor the individual training account—can solve all of the problems facing us with unemployment. But if we start developing some interrelationship between these programs, looking at disadvantaged on one side, dislocated on the other, how they might relate to one another, we can start our economy on a realistic road to recovery that will have some long-term chances of showing us some sustained success.

I applaud the committee's effort, and I hope that there is an extension of this program. I might comment that when I asked my businessmen in the district, as part of the Small Business Advisory Committee, whether, despite the frustrations they had had with the program from time to time, it should be continued, their answer was in the affirmative. They felt that it offered an opportunity to bring people into their employ they might not otherwise consider.

To that end, I believe the legislation has been successful and should be extended, and I thank you for the opportunity.

[The prepared statement follows:]

STATEMENT OF HON. RICHARD J. DURBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, I would like to take this opportunity to thank you and the other members of this distinguished panel for providing me with the opportunity to testify on the Targeted Jobs Tax Credit program.

The Targeted Jobs Tax Credit program was hailed as an innovative approach to reducing unemployment in our country when it was enacted as part of the Revenue Act of 1978. It has since proven to be an important component in our nation's overall strategy to deal with this pressing social problem.

Today the problems addressed by the TJTC program remain, and we consider extension of the program against a backdrop of unemployment and general economic distress. Though the economy is moving out of the recession of early 1980's, there are continued areas of high unemployment which have not yet been touched by recovery. My district in central and western Illinois is one of those areas. Those disadvantaged who are intended to benefit from the TJTC program are likely to be among the last to feel the effects of the recovery.

Not only do continued pockets of high unemployment remain, but our economy is also characterized by much change and dislocation. Today's workers must be flexible in adjusting their skills to changing job needs. The Congressional Budget Office estimates that 25% of those currently unemployed will not be able to resume working in the same job. The jobs they once held have now disappeared.

By offering tax incentive, the TJTC program has provided a new type of government response to the employment problems of disadvantaged workers. It is an approach which complements, not supplants, direct government programs. It also acknowledges our current economic realities and social responsibilities—our unprecedented budget deficits dictate a restraint in government spending while the short and long term problems of disadvantaged workers demand action to meet those needs.

Though we are faced with current budget realities that we can ignore only at our peril, we cannot use them as an excuse to subvert our government's commitment to a full employment economy. It is precisely that commitment that has allowed our nation to achieve its current standard of achievement.

We cannot, we must not, return to the days of benign neglect of workers' needs characteristic of the boom-bust cycle. American society is founded upon a simple idea—equality of opportunity. In the past 50 years, we have come to recognize that achieving this goal sometimes requires government action. Some imbalances are so ingrained, some odds so stacked against the individual, that only the intervention of government can allow the natural process of our free enterprise system to unfold.

I commend the Committee for taking action to extend the TJTC program. This is to be no pro forma extension. These hearings will provide an opportunity to learn from practical experience and to refine, retool and improve what is basically a sound program.

There is a good deal of evidence that changes made by this Committee in 1981 improved the program substantially. In particular, eliminating retroactive certification to receive tax credit has helped to prove that employers receiving tax credits are actually creating new jobs for disadvantaged workers. Another change made by the Committee eliminated cooperative education students from the program because tax incentives were not necessary to induce employers to hire these workers.

In taking a close look at the way the program now operates, I am confident that the Committee can make further improvements.

For instance, there needs to be better coordination between this program and state officials in charge of setting standards, for participation in Medicaid programs. One small businesswoman in my district related to me the following experience.

She hired a woman under the program who turned out to be an excellent worker. However, her salary, while above the minimum wage, did not allow for medical benefits. Since the employee had small children who needed health care, she felt compelled to quit the job to retain her eligibility for Medicaid. This woman wanted to work, and the employer wanted to keep her. But the employee was forced to balance the health of her children against her desire to work in a productive job. It should not be surprising to anyone which option she chose.

The Targeted Jobs Credit program makes an important contribution to reducing unemployment in our country. However, it is designed primarily to meet the needs of a sector of our labor force which has not had an opportunity to secure gainful employment. It does not provide an answer for the growing number of Americans who have been another casualty of today's economy—dislocated workers.

The human side of this problem is staggering. Think of the 50-year-old assembly line worker who has done it all by the book. He has worked hard, paid his taxes, kept up his mortgage payments—done all the things that are supposed to make the American dream a reality—and now he is being told that his abilities are obsolete.

Or consider the younger workers—those who used to enter our factories in unskilled positions and work their way up to better paying and higher skilled jobs. They face an equally bleak future.

Along with Rep. Sherwood Boehlert, I have introduced legislation that addresses the problem of the dislocated worker. While also accommodating the budget realities that have been recognized by the Targeted Jobs Tax Credit program, this legislation would establish individual training accounts to which employers and employees would contribute to finance any retraining needed by the worker.

As with the Targeted Jobs Tax Credit program, the Individual Training Account works through the tax code to provide incentives for both employers and employees. This is a voluntary program that will allow workers to adjust their skills to meet the new demands of the economy and the new skills called for by industry.

The ITA program is simple. An employer and employee jointly agree to enter the program. Each then contributes .08 percent of the employee's yearly wage or $250, whichever is less, until the fund reaches $4,000. Then contributions stop. Contributions are given a 100 percent tax break for the employee, 125 percent for the employer.

If the worker becomes unemployed or if an employer certifies that within six months the worker will lose his or her job, the ITA can be drawn upon to pay for retaining. At the same time, the worker remains eligible for unemployment insurance.

Before entering the training, the worker is required to receive job counseling from the state employment service. For those workers who never draw upon the ITA, it becomes an IRA and can be withdrawn upon retirement.

These are just the basic details of the ITA program. I think this approach holds great potential for aiding a large portion of unemployed Americans and I hope the Committee will find time to evaluate it in greater detail in the future.

I believe that the ITA program, together with the Targeted Jobs Tax Credit program, represent an innovative approach to our nation's employment problems. Each program targets an area of great need—areas that, unfortunately, seem destined to grow as our economy goes through a period of transition. These programs, in conjunction with existing federal and state employment and training programs, reinforce this nation's historical commitment to promoting maximum job opportunities for its citizens.

Again, I thank the Committee for the opportunity to share my views.

Chairman **Stark**. Thank you, Dick, very much.

Do you want to make a guess as to what you think works in the program to hold the participation so low? They say only about 10 percent of the eligibles are claiming the credit. Why? Does the small business person have a suspicion of getting involved in a Government program? Is the employee afraid to apply?

Mr. **Durbin**. I think it is both. Before I came to Congress, I had a small business, and we attempted to use this tax credit program. We were trying to find anything we could to help ourselves out, naturally, as a business.

There was some fear in the first instance that the employee that would be brought in would not be reliable or stay for a long period of time. There were also security concerns since we had a small retail business. That sort of thing, I think, has to be conceded as a major problem with many of these new employees.

I think, from the viewpoint of the worker, there is a natural reluctance to believe that any type of program——

Chairman **Stark**. But I am talking about the ones who are eligible. The Treasury has testified that only about 10 percent of those who are eligible and get jobs actually claim the credit. Why? Is that because the employer doesn't know about it?

Mr. **Durbin**. I think that is a major element. When we are dealing on a day-to-day basis with many of these programs, I think we have more familiarity than many businessmen and businesswomen do, as to what is available and can be used. I think there is a need for a great educational effort to let the businesses of this country know what is available through the Tax Code to assist them in getting back on their feet, particularly in this time of recession.

Chairman **Stark**. Did you have experience in your district—for instance, we have Workfare experiments, which really are reaching out to the same clientele. I am trying to figure out what this program does that perhaps two or three programs do not do. What is so unique about it?

Mr. **Durbin**. I think this program moves toward the private side more directly than Workfare, which looks to provide employees for the public side. Workfare carries with it, I think, a very negative connotation among the poor and disadvantaged as a type of "indentured servitude." I don't believe it is, but I think it has that image, and as a result, people feel like they have no alternative but to participate rather than lose their benefits.

In moving toward the private side, this Targeted Jobs Tax Credit Program, I think, has a different connotation but probably is not as well understood as we would like it to be.

Chairman **Stark**. One last question. One of the reasons that we find that a lot of people, for instance, who are disabled, do not participate in the job market is the fear of failure and, in the past, the fear of losing their medicare or medicaid benefits. If they work for a while, are unable to make it, and then lose the chance to—they have a 9-month or a 6-month waiting period to get back on.

Do you think that perhaps that is one of the reasons that workers are not participating? If they knew that if they didn't work, if they got fired and couldn't make it, the job didn't work for them; they didn't have day care so they couldn't find somebody to care for the child, or something like that, that they could return to whatever assistance they had—in other words, if that "safety net" were truly there, would more people be willing to try this?

Mr. **Durbin**. I think so. I think you touch on a good point. It is a confidence level.

I can recall that last year as I traveled to Quincy, IL, to speak to a chamber of commerce luncheon, that the people who got up and spoke were generally critical of the CETA Program, for example, the businessmen in the community, and after the program, a fellow came forward from the chamber of commerce and said, "We coordinated this program in the Quincy community. It is not very well understood, and we found something interesting. We got an additional grant from the Federal Government to follow up on people who had dropped out of the program."

I use this as an analogy to what you just suggested. What they found was, they brought an employee in who had had no work record or a terrible work record and tried to acquaint him with something as basic as working a cash register, and many of them were very frustrated, thought they couldn't handle it, and left.

So they did a follow-up study. Six months later, where were those people? They found a substantial percentage of them were doing work in employment with those basic skills that they had picked up, even though they had been graded as failures in the program. There had been just enough given to them, enough training, to give them a little bit of confidence to try.

I think when you look at a basic statistic of 10 or 11 percent and try to grade the whole program, you don't look at the full spectrum as to whether or not you are creating some confidence in that employee that could result in a full-time job at a later point.

It is tough to assess these as we try to take these snapshots on a short-term basis as to whether there is any long-term success.

Chairman **Stark**. Mr. Duncan?

Mr. **Duncan**. I have no questions, but I do want to thank you very much.

I apologize because I had to step out of the room for a short while. I will read your full statement, and thank you.

Mr. **Durbin**. Thanks for the opportunity.

Chairman **Stark**. Thank you for being with us.

Our next witness is Mr. Eric Hanushek, the Deputy Director of the Congressional Budget Office.

Welcome to the committee, Mr. Hanushek. Without objection, your entire testimony will appear in the record, and you may proceed to summarize, expand, or anything you prefer.

STATEMENT OF ERIC HANUSHEK, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY SANDRA CHRISTENSEN

Mr. **Hanushek**. Mr. Chairman, thank you for having me.

Before I begin, I would like to introduce Sandra Christensen from our staff at the Congressional Budget Office, who is joining me today.

Chairman **Stark**. Welcome to the committee.

Ms. **Christensen**. Thank you.

Mr. **Hanushek**. I will try to abstract from my statement for this purpose here.

Mr. Chairman, the congressional concern about improving employment opportunities for disadvantaged youth is long standing. Currently, the Congress authorizes both direct spending and tax expenditure programs to aid disadvantaged workers.

One of these, the Targeted Jobs Tax Credit—TJTC, or hereafter referred to as the tax credit—is a tax expenditure that will expire at the end of 1984, unless it is reauthorized by the Congress.

Today I want to cover three topics: background information about the tax credit, which I will try to summarize very quickly; some evidence concerning its effectiveness; and options that the

Congress may want to consider as it debates reauthorization of the credit.

The jobs tax credit is a nonrefundable employer tax credit. By reducing the cost of hiring workers from certain disadvantaged groups relative to unsubsidized job seekers, the credit seeks to induce private-sector employers to try workers from certain high-risk groups that they might not otherwise choose to hire.

Although employers may simply shift their hiring toward targeted workers in response to the credit, without an expansion in overall employment, economic theory suggests that the credit should result in some increased employment because it lowers the cost of labor.

While there is no explicit training requirement under the credit, it may benefit disadvantaged workers who are ready to hold jobs by enabling them to demonstrate their competence and to build a work history that will make it easier for them to find jobs later.

The tax credit has been changed substantially since its initial authorization in 1978, probably increasing its effect on employers' hiring decisions. Specifically, the Economic Recovery Tax Act of 1981 eliminated both eligibility for cooperative education students unless they were also economically disadvantaged, and retroactive certification.

Following these changes, certifications declined in 1982 by 40 percent. But by 1983, use had returned to its 1981 level of more than 400,000 certifications. This reflects both renewed economic growth and greater efforts by the Employment Service to implement the program.

Still, only about 10 percent of employers use the credit and, as was discussed already this morning, employers have claimed the credit for fewer than 10 percent of the eligible workers that were hired.

Two key questions arise with respect to the jobs credit. First, is it effective? That is, does it generate jobs at a reasonable cost for targeted workers that they would not have had without the subsidy? Second, if it is effective, how can employer participation be increased?

The poor employment prospects of disadvantaged youth, which is the only group that we know much about with respect to the tax credit, has long been a major concern. Unemployment rates among minority youth are generally more than double the rates for white youths, and they reached nearly 50 percent for black teenagers in 1983, when the total unemployment rate was about 10 percent.

Today I will review current evidence about the effectiveness of the jobs credit, but some important questions about its effects remain unanswered at this time.

Based on evidence from an employer survey, it appears that from 1980 to 1982, the credit induced a shift of employers' hiring toward targeted youth, but it is less clear how much overall employment increased due to the credit.

In a 1982 survey, about 34 percent of the employers who had used the credit said that it substantially influenced their choice of workers to hire. The proportion of workers who were under age 25 was higher by 6 percent, on average, in firms that used the credit over the previous 2 years as compared to similar firms who had not used the credit.

The proportion of new jobs for youth that were net additions to overall employment is, however, unknown. To the extent that the new job opportunities provided to targeted workers because of the credit were net new jobs, targeted workers benefited with no adverse effects on other workers. If overall employment effects were small, however, then gains for targeted workers were at the expense of other workers who were displaced.

Even if the displacement is substantial, the credit may nevertheless be desirable because it reduces the concentration of unemployment on disadvantaged groups. Any employment losses that untargeted groups experience because of the credit are likely to be widely distributed and small for any particular individual, although in some specific cases substantial costs may be shifted to untargeted workers.

For low-income youth, the Congressional Budget Office estimates that the credit generates private-sector jobs that they would not otherwise have had at an estimated average Federal cost of $2,500 per job.

Now, to put this into perspective, the average cost per participant in local training programs under the Job Training Partnership Act [JTPA], is about $5,400 in 1985. Disadvantaged youth who have difficulty finding a job may be enrolled in these training programs even though they have job skills. Although these programs generally provide some formal training, accounting for their higher cost, it would not be cost effective to provide such services to job-ready youth unless they led to greater gains in future employability than private-sector work experience would.

One of the original premises of the tax credit was that target group members could effectively use a voucher verifying their eligibility as a self-marketing aid in their job search. This appears wrong. In experiments where public assistance recipients informed potential employers about their eligibility for the credit, they had significantly lower placement rates than similar workers who did not. This, I might add, might explain part of the reason why only 10 percent of the eligible workers are claimed.

Most credit certifications result from third-party efforts such as Employment Service personnel either seeking out or responding to employers who will accept referrals of credit-eligible jobseekers.

Large employers, primarily in the service, retail trade, and manufacturing industries, are far more likely to use the credit than small employers. While only about 10 percent of firms have used the credit, those employers often use it heavily, with about 20 percent of their employees subsidized, on average.

This suggests that the subsidy is probably more than enough to compensate for any productivity differences between eligible workers and unsubsidized applicants. Based on employer perceptions in 1982, credit-eligible workers were, at most, 12 percent less productive than unsubsidized workers during the first few weeks on the job.

A substantial proportion of employers are unlikely ever to use the credit. For example, employers who are small, who don't pay taxes, or who rely upon high-skilled labor are unlikely to take advantage of the credit to any substantial degree.

Outreach efforts could significantly increase the probability of employers participating in the tax credit program, however. If firms not now using the credit were contacted by the Employment Service, told how the program works, and asked to accept program referrals, the CBO estimates that up to a third could be persuaded to do so.

For reasons discussed, success rates would probably be highest in large firms with a significant proportion of low-skill jobs. Once persuaded to participate, however, firms might refuse to continue if they found that the credit-eligible applicants referred to them by the Employment Service were often unsuitable. Employers seem especially dissatisfied if the Employment Service sends an applicant who is an ex-convict without informing them of his status.

The Congress has two broad alternatives: Either allow the credit program to expire or extend it, perhaps with some modifications.

The first option is to allow the credit to expire as now scheduled at the end of 1984. This would contribute to simplifying the Tax Code, while Federal programs to facilitate private-sector employment of disadvantaged groups would still exist under the Job Training Partnership Act.

Costs can be more tightly controlled under this latter program, whereas the Congress has less control over the costs of the tax credit, since it is an entitlement.

Allowing the program to end would avoid an estimated additional revenue loss of $163 million in 1985 and a total loss of $2.9 billion between 1985 and 1989, compared with extending it for 3 years in its present form.

Alternatively, the Congress could reauthorize the credit. Since the Department of Labor is currently planning a study of the tax credit program, reauthorization for 2 or 3 years could provide the opportunity to evaluate the program's effectiveness, giving the Congress a better basis on which to assess whether it wants to continue assisting disadvantaged workers in this way. Eliminating the credit without careful evaluation may be premature and perhaps counterproductive.

If the credit is reauthorized, the Congress may want to consider altering the definition of "economically disadvantaged," which is an eligibility criterion for most target groups. Under the current law, the definition is based on the Department of Labor's lower living standard. These are geographic-specific income guidelines that are becoming outdated by virtue of not having been revised since 1981.

The Congress could replace the lower living standard with the poverty guidelines used by the Office of Management and Budget. While these are readily available and regularly updated, they are also based upon some outdated market basket assumptions, and they do not vary by location. Further, substitution of current poverty guidelines would reduce the size of the eligible population somewhat.

An alternative would be to refer to whatever criteria are used to define "economically disadvantaged" under the Job Training Program. Currently, to qualify, participants must receive cash welfare payments or food stamps or belong to families with income less than the OMB poverty lines or 70 percent of the lower living standard. Although each of the currently allowable criteria can be criticized, use of the same criteria would make it easier for the employment service to establish criteria for the two separate programs, which are intended to address the same ultimate goals in any case. Going to these guidelines would, however, expand the revenue loss by some 15 to 20 percent.

In conclusion, changes authorized by the Congress in 1981 probably increased the effectiveness of the tax credit program by reducing, but not eliminating, the potential for employers to benefit without altering their hiring practices. In addition, use of the program is increasing as a result of growing familiarity with the credit, an improving economy, and more active marketing by the Employment Service.

If the Congress wants to continue Federal efforts to assist disadvantaged groups to find employment, it may want to reauthorize the credit program in order to permit rigorous evaluation of the current program relative to alternative approaches. Reauthorization would, however, reduce tax revenues.

Thank you, Mr. Chairman.

[The prepared statement and attachment follow:]

STATEMENT OF ERIC HANUSHEK, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, Congressional concern about improving employment opportunities for disadvantaged groups is longstanding. Currently, the Congress authorizes both direct spending and tax expenditure programs to aid disadvantaged workers. One of these—the Targeted Jobs Tax Credit (TJTC, hereafter referred to as the tax credit)—is a tax expenditure that will expire at the end of 1984, unless it is reauthorized by the Congress.

My remarks today cover three topics: Background information about the tax credit; evidence concerning its effectiveness; and options the Congress may want to consider as it debates reauthorization of the credit.

BACKGROUND

The jobs tax credit is a nonrefundable employer tax credit. By reducing the cost of hiring workers from certain disadvantaged groups relative to unsubsidized job seekers, the credit seeks to induce private-sector employers to try workers from certain high-risk groups that they might not otherwise choose to hire. Although employers may simply shift their hiring toward targeted workers in response to the credit, without an expansion in overall employment, economic theory suggests that the credit should result in some increased employment because it lowers the cost of labor. While there is no explicit training requirement under the credit, it may benefit disadvantaged workers who are ready to hold jobs by enabling them to demonstrate their competence and to build a work history that will make it easier for them to find other jobs later.

Under current law, employers may claim a tax credit for two years—50 percent the first year and 25 percent the second year of the first $6,000 earned annually by newly hired eligible employees.[1] Workers eligible for this credit include low-income youth aged 18 to 24, low-income youth aged 16 to 19 in cooperative education (work-study) programs, public assistance recipients, disabled workers in rehabilitation programs, low-income Vietnam veterans, and low-income ex-convicts. In addition, employers may claim a credit of 85 percent of the first $3,000 earned by low-income youth aged 16 or 17 hired for the summer months. Two-thirds of workers claimed for the year-round program are from youth categories. This group is the focus of my testimony today because there is little evidence about the effect of the credit for other groups.

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[1] The dollar value of savings to employers varies by tax bracket, because the employer's tax deduction for wages paid is reduced by the amount of the credit. In the first year, for example, an employer receives a tax credit equal to $3,000 for an eligible employee earning $6,000. With the credit, however, only $3,000 of the employee's wages may be deducted as a business expense. Hence, at a 25 percent tax rate, both the value of the subsidy and the employee's after-tax cost to the employer are $2,250 ($3,000 times [1-tax rate]). The rate of subsidy for after-tax wage costs is 50 percent in the first year regardless of the employer's tax bracket, though.

The tax credit program has been changed substantially since its initial authorization in 1978, probably increasing its effect on employer's hiring decisions. In its early years, it was widely believed that the program was not providing the intended employment benefits for targeted groups. Instead, it seemed likely that most of the program's benefits accrued to employers for whom the credit was a windfall benefit that did not alter their hiring decisions. There were two reasons for this belief. First, about half the workers certified for the credit were youth in cooperative education programs—a group that employers were generally willing to hire without the credit as an inducement.[2] Second, two-thirds of other workers claimed for the credit—from economically disadvantaged groups—were certified retroactively. That is, first they were hired and only later did their employers determine their eligibility for the credit. In this instance, too, it seems unlikely that the credit shifted hiring preferences.

To increase the effectiveness of the program, the Economic Recovery Tax Act of 1981 eliminated both eligibility for cooperative education students, unless they were also economically disadvantaged, and retroactive certification. Following these changes, certifications declined in 1982 by about 40 percent, with three-quarters of the decline due to the restriction imposed on eligibility for cooperative education students. The rest of the decline was due, in unknown proportions, to the elimination of retroactive certification and to the recession, which resulted in lower overall demand for workers. By 1983, however, use had returned to its 1981 level of more than 400,000 certifications, reflecting renewed economic growth and greater efforts by the Employment Service to implement the program. Still, only about 10 percent of employers have used the credit, and employers have claimed the credit for fewer than 10 percent of the eligible workers they have hired.

EVIDENCE ABOUT THE PROGRAM

There are two key questions about the jobs credit. First, is it effective? That is, does it generate jobs at a reasonable cost for targeted workers that they would not have had without the subsidy? Second, if it is effective, how can employer participation be increased?

What effect does the program have on target groups and other workers?

The poor employment prospects for disadvantaged youth—the only group for which much is known about the credit's effects—have long been a major concern. Unemployment rates among minority youth are generally more than double the rates for white youth (see Table 1). Unemployment rates for black teenagers averaged nearly 50 percent in 1983 and rates for blacks aged 20 to 24 were 32 percent, while the overall unemployment rate was less than 10 percent.[3]

TABLE 1.—UNEMPLOYMENT AND EMPLOYMENT RATES FOR YOUTH, 1983

[In percent]

	Unemployment rates	Employment population rates
All youth:		
16–19	22.4	41.5
20–24	14.5	66.0
White youth:		
16–19	19.3	45.9
20–24	12.1	69.4

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[2] Although some employers who had previously participated in cooperative education programs may have refused to continue when eligibility for the credit was reduced, there is no evidence that this was widespread.

[3] Employment differences between black and white youth are only an approximation to differences between targeted youth and other youth, since many youth eligible for the credit are white and many black youth are ineligible for the credit.

TABLE 1.—UNEMPLOYMENT AND EMPLOYMENT RATES FOR YOUTH, 1983—Continued

[In percent]

	Unemployment rates	Employment population rates
Black youth:		
16–19	48.5	18.7
20–24	31.6	46.8

Source: Employment and Earnings, Bureau of Labor Statistics (January 1984).

Although the general youth employment problem will moderate in future years because of demographic trends, exceptionally high unemployment among disadvantaged youth will likely continue. Because this problem has been so intractable, any approach that may help merits careful consideration if the Congress remains committed to assisting the disadvantaged to find employment. I review current evidence about the effectiveness of the jobs credit here, but some important questions about its effects remain unanswered at this time.

Based on evidence from an employer survey, it appears that from 1980 to 1982 the credit induced a shift in employer's hiring toward targeted youth workers, but it was less clear how much overall employment increased due to the credit. In a 1982 survey, about 34 percent of employers who had used the credit said that it substantially influenced their choice of which workers to hire. The proportion of workers who were under age 25 was higher by at least 6 percent, on average, in firms that had used the credit over the previous two years compared to similar firms that had not used it. The proportion of new jobs for youth that were net additions to overall employment is unknown. To the extent that new job opportunities provided to targeted workers because of the credit were net new jobs, targeted workers benefited with no adverse effect on other workers. If overall employment effects were small, however, the gains for targeted workers were at the expense of other workers who were displaced.

Even if displacement is substantial, the credit may nevertheless be desirable because it reduces the concentration of unemployment on disadvantaged groups. Any employment losses that untargeted groups experience because of the credit are likely to be widely distributed and small for any particular individual, although in some specific cases substantial costs may be shifted to untargeted workers.

For low-income youth, the Congressional Budget Office (CBO) estimates that the credit generates private-sector jobs they would not otherwise have had at an estimated average federal cost of $2,500 per job.[4] To put this in perspective, the average cost per participant in local training programs under the Job Training Partnership Act (JTPA) is about $5,400 in 1985.[5] Disadvantaged youth who have difficulty finding a job may be enrolled in these programs even though they have job skills. Although these programs generally provide some formal training, accounting for their higher cost, it would be cost-effective to provide such services to job ready youth unless they led to greater gains in later employability than private-sector work experience would.

It seems likely that one of the original premises of the tax credit program—that targeted group members can effectively use a voucher verifying their eligibility as a self-marketing aid in their job search—is wrong. In experiments where public assistance recipients informed potential employers about their eligibility for the credit, they had significantly lower placement rates than similar job seekers who did not. Although there is no comparable experimental evidence for other target groups who might be less stigmatized, there is anecdotal evidence that they are reluctant to advertise their eligibility because they believe they would be presenting themselves in a bad light. Most credit certifications result from third-party efforts, such as Employment Service personnel either seeking out or responding to employers who will accept referrals of credit-eligible job seekers.

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[4] This assumes—based on evidence from an employer survey—that two-thirds of the youths in subsidized jobs would have gotten jobs without the subsidy.

[5] Another comparison would be the cost for try-out programs under the JTPA, but these are new and largely unused as yet, so there is no evidence on their cost or effectiveness. In JTPA try-out programs, a limited number of youth may be placed with private-sector employers for a "try-out" period, limited to 250 hours, at no cost to the employer.

Which employers use the tax credit program?

Large employers—primarily in the service, retail trade, and manufacturing industries—are far more likely to use the credit than small employers (see Table 2). While only about 10 percent of firms have used the credit, those employers often use it heavily, with about 20 percent of their employees subsidized, on average. This suggests that the subsidy is probably more than enough to compensate for any productivity differences between eligible workers and unsubsidized applicants. Based on employer perceptions in 1982, credit-eligible workers were at most 12 percent less productive than unsubsidized workers during their first few weeks on the job.

TABLE 2.—ESTIMATED USE OF THE TARGET JOBS TAX CREDIT BY EMPLOYERS, 1982

[In percent]

Type of employer	Employers[1]	Employees[2]
Number of employees:		
1 to 4	4	17
5 to 19	10	25
20 to 49	12	8
50 to 199	21	21
200 plus	44	14
Industry:		
Mining	2	1
Construction	8	10
Manufacturing	13	17
Transportation and utilities	6	15
Wholesale and retail trade	11	31
Finance	5	7
Other services	10	10
Total	10	20

[1] Percent of employers who have used the TJTC.

[2] Percent of employees subsidized in firms that have used the TJTC.

Source: 1982 Employer Survey funded by the National Institute of Education and the National Center for Research in Vocational Education. This survey is not nationally representative, but is representative of both urban and rural sites in three regions—South, North Central, and West. In all, 3,710 employers responded to the survey.

A substantial proportion of employers are unlikely ever to use the credit. For example, employers who don't pay taxes—about 30 percent of firms—can't benefit from the credit. Further, employers whose products or services can't be produced with low-skill labor won't use the credit, since they can't use the kind of workers who are eligible for it. In addition, small employers may be reluctant to use the credit for least two reasons. First, they are less able than larger firms to recover the perhaps sizable fixed costs of participation—learning about the progam and then modifying hiring practices to take advantage of it. Second, they are less able to absorb the additional costs that an unsuitable employee could impose on the firm.

Outreach efforts could significantly increase the probability of employers participating in the tax credit program, however. If firms not now using the credit were contacted by the Employment Service, told about how the program works, and asked to accept program referrals, CBO estimates that up to a third could be persuaded to do so. For reasons already discussed, success rates would probably be highest in large firms with a high proportion of low-skill jobs, and lower in small firms of fims with few low-skill jobs. Once persuaded to participate however, firms might refuse to continue if they found that the credit-eligible applicants referred to them by the Employment Service were often unsuitable. Employers seem to be expecially dissatisfied if the Employment Service sends an applicant who is an ex-convict without infirming them of the status.

OPTIONS

The Congress has two broad alternatives—either allow the tax credit program to expire or extend it, perhaps with some modifications.

Allow the TJTC program to expire

One option is to allow the credit to expire as now scheduled at the end of 1984. This would contribute to simplifying the tax code, while federal programs to facilitate private-sector employment of disadvantaged groups would still exist under the

Job Training Partnership Act. Costs can be tightly controlled under this program, whereas the Congress has less control over the costs of the tax credit program since it is an entitlement. Allowing the program to end would avoid an estimated additional revenue loss of $163 million in 1985 and a total loss of $2.9 billion from 1985 through 1989, compared with extending it for three years in its present form.[6]

Reauthorize the TJTC program

Alternatively, the Congress could reauthorize the credit. Since the Department of Labor is currently planning a study of the tax credit program, reauthorization for two or three years would provide the opportunity for evaluation of the program's effectiveness, giving the Congress a better basis on which to asses whether it wants to continue assisting disadvantaged workers in this way. Eliminating the credit without careful evaluation may be premature and counter-productive.

If the credit is reauthorized, the Congress may want to consider altering the definition of "economically disadvantaged," which is an eligibility criterion for most target groups. Under current law, the definition is based on the Lower Living Standard, a set of income guidelines varying by family size and location that are in turn based on the lower family budget developed by the Bureau of Labor Statistics (BLS). BLS has not revised the lower family budget since 1981, however. Consequently, economic eligibility conditions for the tax credit have become increasingly stringent because of inflation. While the Employment and Training Administration may soon assume responsibility for updating the Lower Living Standard, the outdated market-basket information on which it is based, if not supplemented with new survey information, makes its use questionable.

The Congress could replace the Lower Living Standard with the poverty guidelines used by the Office of Management and Budget (OMB), which are readily available and regularly updated. They are also based on outdated market-basket assumptions, though, and they do not vary by location. Further, substitution of current poverty guidelines would reduce the size of the eligible population somewhat.

An alternative would be to refer to whatever criteria are used to define "economically disadvantaged" under the job training program. Currently to qualify, participants must receive cash welfare payments or food stamps, or belong to families with income less than the OMB poverty guidelines or 70 percent of the the Lower Living Standard. Although each currently allowable criterion can be criticized, use of the same criteria would make it easier for the Employment Service to establish eligibility for the two programs, which are intended to address the same ultimate goals in any case. It would also expand eligibility for the tax credit, however, and could increase revenue losses by 15 to 20 percent.

CONCLUSION

Changes authorized by the Congress in 1981 probably increased the effectiveness of the tax credit program by reducing—but not eliminating—the potential for employers to benefit without altering their hiring practices. In addition, use of the program is increasing as a result of growing familiarity with the credit, an improving economy, and more active marketing by the Employment Service. If the Congress wants to continue federal efforts to assist disadvantaged groups to find employment, it may want to reauthorize the credit program in order to permit rigorous evaluation of the current program relative to alternative approaches. Reauthorization would, however, reduce tax revenues.

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[6] The Joint Tax Committee estimates that losses from the TJTC, if extended, would total about $548 million for fiscal year 1985. Revenue losses would total $385 million even if it were not extended, however, since employers may claim the credit for up to two years' wages paid to eligible employees hired before January 1, 1985.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Penner
Director

MAY [illegible] 1984

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I have attached a staff memorandum on the Targeted Jobs Tax Credit, done in response to the February 1984 request of the Committee on Ways and Means. The findings reported in this memorandum were presented in testimony we gave before the Subcommittee on Select Revenue Measures on April 10, 1984, and we have submitted this memorandum as an addendum to our testimony for the record.

I hope this material has been useful to you.

With best wishes,

Sincerely,

Eric Hanushek
for Rudolph G. Penner

Attachment

37-427 0 - 84 - 3

THE TARGETED JOBS TAX CREDIT

Staff Memorandum

Congressional Budget Office

May 1984

PREFACE

This paper was written by Sandra Christensen, at the request of the Committee on Ways and Means of the U.S. House of Representatives. Christensen is in CBO's Human Resources and Community Development Division under the direction of Nancy Gordon and Martin Levine. Others who contributed to preparation of the paper include Howard Levine and Roald Euller, who provided computer assistance; Francis Pierce, who edited the paper; and Mary Braxton, who prepared it for distribution.

SUMMARY

The Targeted Jobs Tax Credit (TJTC)--an employer tax credit that reduces the cost of hiring workers from certain disadvantaged groups--is scheduled to expire at the end of 1984. To assist the Congress in considering whether to reauthorize the TJTC, this study reviews information about the operation of the program and discusses the findings from analyses by the Congressional Budget Office (CBO) regarding its effectiveness.

BACKGROUND

The TJTC is a nonrefundable employer tax credit. The credit seeks to induce private-sector employers to try workers from high-risk groups that they might not otherwise choose to hire. Under current law, employers may claim a tax credit for up to two years--50 percent the first year and 25 percent the second year--of the first $6,000 earned annually by newly hired eligible employees. Workers eligible for this credit include low-income youth age 18 to 24, low-income youth age 16 to 19 in cooperative education (work-study) programs, public assistance recipients, disabled workers in rehabilitation programs, low-income Vietnam veterans, and low-income ex-convicts. In addition, employers may claim a credit of 85 percent of the first $3,000 earned by low-income youth age 16 or 17 hired for the summer months. Two-thirds of workers claimed for the year-round program are from youth categories.

In its early years, it was widely believed that the program did not alter employers' hiring decisions but, instead, provided primarily windfall benefits for firms. There were two reasons for this belief. First, about half the workers certified for the credit were youth in cooperative education programs--a group that employers were generally willing to hire without the credit as an inducement. Second, two-thirds of other workers claimed for the credit--from economically disadvantaged groups--were certified retroactively. That is, first they were hired and only later did employers determine their eligibility for the credit. In this instance, too, it seems unlikely that the credit shifted hiring preferences.

To increase the effectiveness of the TJTC, the Economic Recovery Tax Act of 1981 eliminated both eligibility for cooperative education students, unless they were also economically disadvantaged, and retroactive certification. Following these changes, certifications declined in 1982 by about 40 percent, with three-quarters of the decline due to the restriction imposed on eligibility for cooperative education students. The rest of the decline was due, in unknown proportions, to the elimination of retroactive certification and to the recession, which resulted in lower overall demand for workers. By 1983, however, use had returned to its 1981 level of more than 400,000 certifications, reflecting renewed economic growth and greater efforts by the Employment Service to implement the program. Still, only about 10 percent of employers have used the credit, and employers have claimed the credit for fewer than 10 percent of the eligible workers they have hired.

EVIDENCE ABOUT THE PROGRAM

There are two major questions about the TJTC in its present form. First, is it effective? That is, does it generate jobs for targeted workers that they would not have had without the subsidy? Second, if it is effective, how can employer participation be increased in order to provide benefits to a greater number of workers?

Is the TJTC Effective?

For a number of reasons, it is very difficult to assess whether the TJTC generates additional employment for targeted workers. For one, the credit is available to all for-profit firms, so that it is impossible to set up a controlled experiment to evaluate employers' responses to the credit. Further, information about the employment of targeted workers is very limited. Data are sufficient for analysis only for the largest of the nine target groups--low-income youth age 18 to 24.

Based on an analysis of the data that are available, it appears that the credit has encouraged hiring of low-income youth. In a 1982 survey, about a third of employers who responded (all of whom had used the credit) said that it significantly influenced their choice of which workers to hire. Another 22 percent said it influenced their choice only slightly. An examination by CBO of employment data for 1980 and 1981 indicated that the proportion of workers who were under age 25 was higher by at least 6 percent, on average, in firms that had used the credit compared to similar firms that had not used it. Targeted youth appeared to gain in employment without adverse effect on employment of nonpoor youth, perhaps because employers structured their hiring practices toward youth in general in response to the credit. Since there was no consistent evidence that the credit increased employment overall, employment gains for youth may have been at the expense of adult workers who were displaced. Even if displacement was substantial, though, the credit may be desirable if it reduces the concentration of unemployment on disadvantaged groups.

How Can Employer Participation Be Increased?

If the Congress chooses to reauthorize the TJTC, the next question is how to increase employers' use of the program. If the 90 percent of firms not now using the credit were contacted by Employment Service personnel, told how the program works, and asked to accept program referrals, CBO estimates that up to a third could be persuaded to do so. Success rates would probably be highest in large firms with a high proportion of low-skill jobs, and lower in small firms or firms with few low-skill jobs.

Even with such efforts, however, a substantial proportion of employers are unlikely ever to use the credit. For example, employers who do not pay taxes--about 30 percent of firms--cannot benefit from the TJTC. Further, employers whose products or services cannot be produced with low-skill labor will not use the credit, since they cannot employ the kind of workers who are eligible for it.

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CHAPTER I. INTRODUCTION

The Targeted Jobs Tax Credit (TJTC) is a non-refundable employer tax credit intended to increase private sector employment for certain disadvantaged groups. The credit was initiated by the Revenue Act of 1978, but has been modified with each subsequent reauthorization, in 1981 and 1982. It will expire at the end of December 1984 unless reauthorized.

There are two principal concerns about the TJTC. One is that use by employers is low, with the result that the impact of the program on employment for targeted groups cannot be large even if the credit alters the hiring patterns of employers who use it. The second concern is that the credit may provide windfall benefits to employers who use it without changing their hiring patterns.

This study investigates each of these concerns. Chapter II describes the TJTC and other federal employment subsidies targeted on the disadvantaged. Chapter III analyzes data from a survey of employers to identify the determinants of employers' use of the TJTC and whether it appears to alter their hiring preferences. Finally, Chapter IV examines evidence for individuals from the largest target group--disadvantaged youth age 18 to 24--to assess what employment benefits they get as the result of the TJTC. The empirical results reported in this study are tentative, though, because of difficulties in interpreting the findings that are explained in the relevant sections.

CHAPTER II. THE TARGETED JOBS TAX CREDIT

The TJTC is a subsidy, intended to increase employment prospects for members of designated groups that experience unusual difficulty in finding jobs even in a healthy labor market. Subsidies reduce the cost to employers of hiring from these groups, making targeted applicants better able to compete with unsubsidized job-seekers. Subsidies are intended to compensate, at least partially, for whatever disadvantages members of the targeted groups have relative to other members of the labor force. These disadvantages may be either real or perceived differences in work skills between the targeted groups and other workers.

If targeted groups are actually less qualified, on average, than other workers, subsidies must be sufficient to compensate for their lower productivity and must last long enough for them to increase their productivity to that of other workers by learning on the job. If target group members are at a disadvantage because of employers' inaccurate perceptions about their productivity, subsidies must be sufficient to compensate for their lower expected productivity but need not be of long duration, since short-term subsidies are sufficient to allow employers to try target group employees and see that their perceptions were inaccurate.

The number of jobs created by the credit--both net overall and for targeted workers--is likely to fall short of the number of jobs subsidized. To some extent, employers will simply shift their hiring toward targeted workers in response to the credit, without an expansion in overall employment. Economic theory suggests that the credit should result in some increased employment, though, because it lowers the cost of labor. Even the number of new jobs provided to targeted workers will be less than the number of jobs subsidized, since some employers will claim credits for hiring they would have done anyway. To the extent this occurs, the credit is a windfall benefit to the employer. Windfall benefits occur to some degree from all subsidies, though.

Currently, the federal government provides targeted employment subsidies through three programs—the Targeted Jobs Tax Credit (TJTC), the Job Training Partnership Act (JTPA), and the Work Incentive program (WIN). The TJTC is a credit against tax liability that any taxable employer with eligible employees may claim. Subsidies under the JTPA and WIN programs are provided on a discretionary basis to selected employers who have agreed to accept placements of JTPA or WIN participants. 1/ This study focuses only on the TJTC.

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1. In the JTPA and WIN programs, employers may receive subsidies of up to 50 percent of an employee's wage costs in return for on-the-job training. In addition, there is provision under the JTPA for fully subsidized but short-term "try-out" employment with private-sector employers.

THE TARGETED JOBS TAX CREDIT TODAY

The TJTC was initiated by the Revenue Act of 1978 (P.L. 95-200), and subsequently amended and extended by the Economic Recovery Tax Act of 1981 (P.L. 97-34) and the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-284). The current authorization will expire at the end of December 1984.

Under current law, employers may claim a credit of 50 percent the first year and 25 percent the second year on the first $6,000 earned annually by each employee newly hired from any of the following groups:

- Economically disadvantaged 2/ students age 16 to 19 who are in cooperative education programs;
- Economically disadvantaged youth age 18 to 2[illegible]
- Ex-convicts who are economically disadvantaged;
- Vietnam veterans who are economically disadvantaged;
- Handicapped persons referred from vocational rehabilitation programs;
- Recipients of general assistance payments;
- Recipients of Supplemental Security Income; and
- Participants in the Work Incentive program and other recipients of Aid to Families with Dependent Children.

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2. Economically disadvantaged persons are defined as those having a family income during the preceding six months that, on an annual basis, was less than 70 percent of the "lower living standard," based on the lower family budget compiled by the Bureau of Labor Statistics (BLS). BLS stopped revising the lower family budget in 1981, though, because it believed the consumer expenditure information the budget was based on was no longer accurate. As a result, the lower living standard has not been updated since 1982, so that real eligibility conditions for the TJTC are increasingly more stringent.

In addition, employers may claim a credit of 85 percent of the first $3,000 earned by each economically disadvantaged youth age 16 or 17 newly hired for employment during any 90-day period between May 1 and September 15.

The TJTC is a capped nonrefundable credit. The total value of the employment credit that a firm may claim is limited to 90 percent of its federal income tax liability less all other nonrefundable credits. If a firm's credit in a given year exceeds this cap or a firm has no tax liability that year, the credit can be carried back for 3 years and forward for 15 years against other years' taxes.

The TJTC is administered by the U.S. Employment Service, through local Job Service offices. The certification procedure was designed to relieve employers from the responsibility of proving that a worker is a member of an eligible group. It was intended that job applicants would first be issued vouchers by the Job Service that verified their eligibility for the credit. Employers would confirm that the applicants had been hired by signing the vouchers and returning them to the Job Service, which would return certificates that the employers could file with their tax returns to substantiate their claims for the credit. 3/ In some instances, however,

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3. Vouchers are issued to job-seekers and provide information about job applicants to potential employers, assuring employers of applicants' eligibility for the credit if hired. Certificates are issued to employers and provide information to the Internal Revenue Service, verifying employers' claims for the credit.

employers (or their agents) refer unvouchered job applicants or newly hired individuals whom they believe may be eligible for the credit to the Job Service to establish their claim to a credit. Incentives for Job Service offices to market the TJTC were increased in 1983 by an administrative decision to allocate administrative funds on the basis of certifications issued.

EVOLUTION OF THE TJTC

The TJTC is not the first federal targeted employment tax credit. It was preceded by the WIN tax credit, authorized in 1971, for which only recipients of Aid to Families with Dependent Children (AFDC) who were certified as employable by the WIN office were eligible. Initially, the credit was set at 20 percent of all wages paid to eligible employees during their first 12 months of employment, with total credits claimed by any firm in one year limited to $25,000 plus one-half of the firm's federal tax liability above $25,000. Use was very low, however, with the result that the tax credit provisions were liberalized in 1975 and again in 1976. Further revisions of the WIN tax credit were authorized by the Revenue Act of 1978, which made it very similar to the new Targeted Jobs Tax Credit authorized by that act. In particular, the WIN credit was increased to 50 percent in the first year of employment, and a 25 percent credit was authorized for the second year of employment. Limits were placed on the amount of wages eligible for the credit for each employee, but the ceiling on total credits claimed by any one firm was liberalized, limited only by the firm's federal tax liability. The only major difference between the WIN tax credit and the TJTC in 1978 was that eligible employees had to be retained for at least 30 days to be claimed under the WIN tax credit, while there was no retention requirement under the TJTC.

Tax legislation in 1981 eliminated the separate WIN tax credit and added WIN/AFDC participants to groups targeted under the TJTC. It also, for the first time, restricted TJTC eligibility for cooperative education students to those who were economically disadvantaged. Finally, it introduced a requirement that employers hiring eligible employees had to request certification of their eligibility prior to their employment in order to claim the credit.

These last two changes were expected to reduce use substantially because cooperative education students had made up about half of all employees certified for the TJTC, and because about two-thirds of all other certifications were retroactive--that is requested for employees already on the job. It was also believed, however, that a higher proportion of employees subsidized by the credit would represent additional employment generated for targeted groups, rather than just windfall benefits to employers for hiring they would have done anyway.

Following the changes in 1981, TJTC use declined in 1982 by about 40 percent, but three-quarters of the decline was due to the restrictions imposed on eligibility for cooperative education students. The rest of the decline was due, in unknown proportions, to the elimination of retroactive certification and to economic deterioration during the year.

The only substantial change made to the TJTC in its 1982 reauthorization was the creation of a special credit for hiring economically disadvantaged youth age 16 or 17 during the summer months beginning in 1983. Regular TJTC certifications (excluding the new summer youth category) in 1983 were nearly 50 percent higher than in 1982, reflecting renewed economic growth and greater Job Service efforts to market the program. Regular certifications for economically disadvantaged groups (excluding cooperative education but including the WIN group) were a third higher in 1983 than they had been in 1981, despite the elimination of retroactive certification (see Table 1).

In 1983, more than two-thirds of the certificates issued were for youth categories (see Table 2). On average, three times more vouchers were issued than resulted in certificates, although the certification rate varied among the different groups. Among the largest target group--youth 18 to 24--about 45 percent who were vouchered found jobs. Among WIN/AFDC applicants, by contrast, only 17 percent of those vouchered found jobs.

TABLE 1. TJTC CERTIFICATES ISSUED

Fiscal Year	TJTC a/	TJTC Less Cooperative Education
1979 (part year)	79,193	74,638
1980	321,348	186,986
1981	476,705	297,721
1982 b/	275,936	227,881
1983		
Regular Credit	405,968	397,644
Summer Youth Credit	33,538	33,538

SOURCE: Office of Planning and Review, U.S. Employment Service.

a. Includes economic determinations for disadvantaged cooperative education students, although these may not be equivalent to certificates issued for the group. Certifications under the separate WIN program are included for 1979 through 1982.

b. The separate WIN tax credit and TJTC eligibility for nondisadvantaged cooperative education students were eliminated during fiscal year 1982 (at the end of December 1981).

Probably as the result of greater marketing efforts by Job Service offices, the estimated take-up rate for the TJTC--the proportion of eligible newly hired employees who are claimed by their employers--nearly doubled from 3.5 percent in 1982 to 6.8 percent in 1983. 4/ More than 90 percent of eligible individuals who find jobs are not claimed for the credit, however.

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4. Take-up rates are estimated only for the group of disadvantaged youth age 18 to 24. They are computed by dividing the number of certifications approved for this group by the estimated number of new hires from this group for the year, which is about 3.8 million.

TABLE 2. TARGETED JOBS TAX CREDITS, BY TARGET GROUPS, 1983

Group	Vouchers		Certifications		Ratio of Certifications to Vouchers
	Number	Percent	Number	Percent	
Cooperative Education a/	8,324	0.6	8,324	1.9	1.00
Youth 18-24	581,795	44.9	259,309	59.0	0.45
Ex-convicts	94,545	7.3	21,929	5.0	0.23
Vietnam Veterans	80,808	6.2	24,141	5.5	0.30
Vocational Rehabilitation	78,683	6.1	25,412	5.8	0.32
General Assistance	65,169	5.0	14,480	3.3	0.22
Supplemental Security Income	3,115	0.2	1,254	0.3	0.40
WIN/AFDC	294,394	22.7	50,736	11.5	0.17
Summer Youth	87,308	6.7	33,538	7.6	0.38
TOTAL	1,295,271	1.00	439,506	1.00	0.34

SOURCE: Office of Planning and Review, U.S. Employment Service.

a. The number of economic determinations made for disadvantaged cooperative education students is included both as vouchers and as certifications, although it may not be equivalent to certifications issued for the group.

CHAPTER III. RESPONSES OF EMPLOYERS TO THE TJTC

There is no reason to seek ways in which to increase employers' use of the TJTC if the credit does not alter employers' hiring decisions, inducing them to hire more employees from targeted groups. If hiring decisions are not affected, then the TJTC simply provides windfall benefits to employers using it, without serving goals the Congress intended. 1/

This chapter describes the patterns of TJTC use by employers, investigates the factors that influence whether employers will use the TJTC, and obtains estimates of whether the TJTC has altered the hiring practices of employers. Most of the information given here is derived from a survey of employers made in early 1980 and repeated in early 1982. The respondents are a random sample of for-profit establishments from 28 locations around the country. (See Appendix A for descriptions of the data and the methodology used here.)

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1. Even if employers do not alter their hiring patterns in response to the credit, some employment benefits for the targeted groups could result from use of the credit if firms made enough use of it to reduce their costs appreciably, thereby expanding the number of workers they hire. But only firms that make relatively heavy use of low-skill employment are likely to have enough employees eligible for the credit to result in a significant reduction in costs.

About 10 percent of employers in the survey sites had used the TJTC by 1982, up from less than 1 percent in 1980. 2/ Firms that used it tended to use it heavily, with 20 percent of employees subsidized, on average (see Table 3). Employers in manufacturing, in wholesale or retail trade, and in service industries were more likely to use the TJTC than those in other industries. Use was strongly related to firm size.

Employer use also varies by region. The TJTC is used most intensively in the South, which generated 43 percent of TJTC certifications in 1982, but had only 33 percent of all employment. Use is least intensive in the Northeast (see Table 4). Regional variation in use is probably at least partly due to variation in local promotional efforts, since certifications tend to be high relative to employment in states where the number of vouchers is high relative to the size of the eligible population. 3/

DETERMINANTS OF USE BY EMPLOYERS

A number of factors may influence whether a given employer will use the TJTC, and sorting them out can help determine how

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2. These figures, and those reported in Table 3, are based on responses weighted to reflect sampling probabilities in the survey sites. About 21 percent of all respondents to the 1982 survey had made use of the credit.

3. The simple correlation between the voucher rate and the certification rate across states was .65 in 1982. Certifications have been a fairly constant proportion of vouchers from year to year, despite large changes in the number of vouchers issued.

TABLE 3. ESTIMATED USE OF THE TJTC BY EMPLOYERS, 1982

Type of Employer	Percent of All Firms in the Survey Sites	Percent of Firms That Used the TJTC	Percent of Employees Subsidized in Firms That Used the TJTC
By Number of Employees			
4 or less	36	4	18
5-19	41	10	26
20-49	13	12	9
50-199	7	21	21
200 or more	2	44	14
By Industry			
Agriculture	*	0	0
Mining	1	2	1
Construction	9	8	10
Manufacturing	8	13	18
Transport/Utilities	4	6	15
Wholesale/Retail Trade	40	11	32
Finance	9	5	8
Other Services	28	10	10
All Employers	100	10	20

* Less than 0.5 percent.

SOURCE: 1982 Employer Survey funded by the National Institute of Education and the National Center for Research in Vocational Education. This survey is not nationally representative, but is representative of both urban and rural sites in three regions--South, North Central, and West. In all, 3,710 employers responded to the survey.

TABLE 4. EMPLOYER USE OF THE TJTC, BY REGION, 1982

	Certifications as Percent of Total a/	Employment as Percent of Total b/
Northeast	17.5	23.0
North Central	22.3	25.4
South	43.1	33.4
West	17.1	19.8

SOURCE: TJTC administrative data; and Employment and Earnings, May 1983.

a. The total number of certifications in fiscal year 1982 was 202,261. Certifications for cooperative education students are not included here.

b. Average nonagricultural employment for calendar year 1982 was 88.5 million.

important program outreach efforts are and where promotional efforts would be best concentrated if the credit is an effective way to alter employers' hiring practices. 4/ Some employers are unlikely ever to use the credit, however. For example, employers who do not pay taxes—about 30 percent of firms—cannot benefit from the credit. Further, employers whose products or services cannot be produced with low-skill labor will not use the credit, since they cannot use the kind of workers who are eligible for it.

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4. See John Bishop, ed., Subsidizing On-the-Job-Training: An Analysis of a National Survey of Employers, National Center for Research in Vocational Education, and Institute for Research on Poverty (1982), p. 25, for an earlier analysis of employers' use of the TTJC.

The most important determinants of use are outreach efforts by the program's administrators, the size of the firm, and the percent of workers in the firm under age 25 at the start of the survey period. Other factors that are positively related to TJTC use are the employer's demonstrated willingness to fire unsatisfactory employees and the employer's attitude toward involvement in government programs. Firms in service industries are most likely to use the TJTC, followed by firms in wholesale and retail trade (see Table A-3 in Appendix A).

Outreach is an important determinant because a firm cannot use the TJTC if it does not know about it. The outreach measures used in this study included contacting firms to inform them of the program, and asking them to accept TJTC-eligible referrals. The results reported in Appendix A indicate that the probability of using the TJTC is increased by 21 percentage points for firms that are informed about the credit, and by 32 percentage points for firms that are also asked to accept eligible referrals.

Firm size is important for two reasons. First, large firms are more likely to be informed about the TJTC because the agencies responsible for administering it would likely concentrate their promotional efforts on large establishments, which are more likely to be hiring at any given time. Second, large firms have more incentive to use the credit because they are more likely to recover the relatively fixed costs of learning about the credit and of modifying their hiring practices to take advantage of it.

The third factor, a high proportion of young employees, is important because it indicates that the firm has low-skill jobs suitable for TJTC-eligible workers. Demonstrated willingness to dismiss employees is a determinant of TJTC use because it means that a firm can easily correct hiring mistakes. This is important, since the purpose of the TJTC is to induce firms to hire workers they would normally be reluctant to hire. Most employers feel that hiring a subsidy-eligible worker means they are taking a greater risk that things will not work out.

These results are consistent with findings from a TJTC marketing experiment conducted by the Wisconsin Department of Health and Human Services in early 1981. In that experiment, it was found that large firms were more likely to use the TJTC and that telephone contact from TJTC personnel significantly increased the likelihood of employer use, although this result could be a spurious effect of biases introduced by the researchers' decision to eliminate firms that refused the telephone promotion from the sample. 5/

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5. Mail-only promotional efforts were positively related to greater use, but this finding was so weak that it could have been the result of random variation in the data. See Jean Badeau and others, "Jobs Tax Credits—The Report of the Wage Bill Subsidy Research Project, Phase II," Wisconsin Department of Health and Social Services and the Institute for Research on Poverty (January 1982).

Respondents to the Employer Survey who did not plan to use the TJTC gave various reasons for their decision. Among those who had previously used the credit, 18 percent said that they had been dissatisfied with Job Service referrals; 15 percent said that claiming the credit involved too much paper work; and 17 percent said that eligible workers were either too unskilled or unreliable. Only 3 percent cited concern about government interference. Among those who had not used the credit, 30 percent said that they did not use the Employment Service (see Table 5).

EFFECTS OF THE TJTC ON EMPLOYERS' HIRING PATTERNS

Responses from the Employer Survey indicate that the TJTC does alter the hiring decisions of employers. When asked whether an employee was more likely to be hired if eligible for the credit, 34 percent of those responding said that TJTC eligibility affected the decision significantly. Another 22 percent said it had some effect, though small. The remainder said the credit had no effect on their decisions. There is reason to be skeptical of such self-reported responses, however, since the TJTC clearly benefits employers who claim it whether or not it alters their hiring decisions to benefit the targeted workers. Consequently, employers may say that the program is having its intended effect even if it is not, because they want to see it continued.

More objective evidence that the TJTC alters hiring decisions comes from empirical estimates of firms' employment, where TJTC use is one of

TABLE 5. REASONS EMPLOYERS GIVE FOR NOT PLANNING TO USE THE TJTC IN THE FUTURE

	Percent of Respondents Citing This Reason Who a/	
Reasons	Have Used TJTC	Have Not Used TJTC
Didn't think of it	4	2
Don't expect to be hiring	10	16
Will not be needing types of workers who might be eligible	9	10
Employment Service or other agency is too slow	2	*
Don't use the Employment Service	20	30
Dissatisfied with Employment Service referrals	18	10
Too much paper work	15	14
Eligible workers not skilled enough	9	19
Eligible workers not reliable enough	8	4
Applicants should be judged by qualifications, not by whether tax credit is available	19	6
Would not benefit because we have no tax liability	0	*
We are not eligible	1	1
Tax benefit not big enough	2	2
Might result in government interference	3	5
Other	5	5

* Less than 0.5 percent.

SOURCE: 1982 Employer Survey.

a. Percents sum to more than 100 because respondents could list up to three reasons for not planning to use the credit.

the explanatory variables, but these estimates should be viewed with caution for several reasons. For one, estimates of the program's effects were obtained by contrasting employment in firms that used the credit to employment in firms that did not use it, although the credit was an option available to all employers in the survey. This methodology yields less reliable results than could be obtained from a controlled experiment, where the credit would be available to some employers and not to other, otherwise similar, employers. Further, it was necessary to use the proportion of employment under age 25, instead of target group employment, as a measure of the program's effects because no information was available on the proportion of employees who were economically disadvantaged. The presumption was that any increase in the share of youth employment by firms that was associated with use of the TJTC would be due to increased hiring of youth eligible for the credit.

The results show that TJTC use was positively associated with an increase in the proportion of employment made up of workers under 25, but there was no consistent evidence that TJTC use increased total employment (see Tables A-4 through A-7 in Appendix A). 6/ The estimates indicate that

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6. These results hold even after eliminating the possibility of a reverse relationship between employment and TJTC use—where firms that are growing or that are altering their production techniques toward more low-skill jobs anyway may take advantage of the credit more than other firms, even though the credit has no effect on their employment decisions. This reverse effect is eliminated by using an "instrument' for the TJTC variable in the employment equation, which is obtained by predicting TJTC use based on variables excluding employment.

the share of youth employment was at least 6 percent higher in firms that used the TJTC over the survey period, relative to firms that made no use of the credit. If there was no net new employment generated by the credit, however, youth employment gains were at the expense of other workers. Even if displacement of other workers was substantial, though, the credit could be beneficial by reducing the concentration of unemployment.

CHAPTER IV. EFFECTS OF THE TJTC ON THE YOUTH TARGET GROUP

Of the nine groups eligible for the TJTC, the largest is economically disadvantaged youth age 18 to 24. This chapter assesses the effects that the TJTC has on employment for this group, after first comparing youth who get TJTC jobs to other poor youth and TJTC-subsidized jobs to other jobs held by youth. 1/

CHARACTERISTICS OF TJTC YOUTH

Youth who get private-sector jobs subsidized by the TJTC are, on average, less disadvantaged than youth in other federal employment programs who, in turn, tend to be less disadvantaged than poor youth who do not participate in any federal employment and training program. TJTC youth are more likely to be white and less likely to be high school dropouts than other poor youth. They are also less likely than participants in employment programs to be currently attending school (see Table 6).

It is expected that TJTC youth would be less disadvantaged than youth in CETA programs, since TJTC youth should be job-ready while CETA programs are intended to provide remedial education and training for youth

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1. Only the youth target group is examined, since data are lacking for the other groups.

TABLE 6. CHARACTERISTICS OF TJTC, CETA, AND OTHER LOW-INCOME YOUTH, 1981

	TJTC Participants	CETA Participants	Other Low-Income Youth
Percent Male	60	59	45
Percent Nonwhite	24	39	35
Percent High School Dropouts	6	12	31
Percent Enrolled			
High School	4	17	7
College	20	27	18
Average Age	21	20	21
Average Grade Completed	12	12	11

SOURCE: 1982 National Longitudinal Survey of Youth.

who are not ready to compete in the job market. It is less clear why those who are not served by any government program are the most disadvantaged, although this may indicate that federal employment and training programs "cream" from the eligible population--that is, select those with the fewest disadvantages.

CHARACTERISTICS OF TJTC JOBS

The jobs obtained by youth subsidized by the TJTC in 1981 were more likely to be service jobs, and lower paid, than jobs held by other youth. The average wage was close to the federal minimum of $3.35, and job duration was 3.5 months, on average. Jobs held by non-poor youth paid nearly $5.00 an hour and lasted 4.4 months, on average. Further, non-poor youth were less concentrated in service, sales, and clerical jobs (see Table 7).

TABLE 7. CHARACTERISTICS OF JOBS HELD BY YOUTH, 1981

	TJTC Youth	Other Low-Income Youth	Non-Poor Youth
Average Hourly Wage (in dollars) a/	2.82	3.84	4.82
Average Hours/Week	37	37	39
Average Job Duration (in months)	3.5	3.8	4.4
Occupational Distribution (in percents)			
Service workers	43	23	24
Sales	20	5	6
Clerical	20	16	20
Operatives/craftsman	9	23	29
Laborers	8	23	15
Prof/managerial	0	10	6

SOURCE: National Longitudinal Survey of Youth, 1982.

a. Wage reporting in this survey is subject to large errors. TJTC administrative data indicate that 8 percent of TJTC jobs were paid less than the federal minimum wage in 1981, and 65 percent were paid at the federal minimum or just above.

EMPLOYMENT EFFECTS

Findings from the Employer Survey, discussed in Chapter II, indicated that the credit tilted employers' hiring toward youth. This provides some evidence that the credit has the intended effect, but the findings must be viewed as tentative because there was no employment information specifically for the TJTC target group. Further, even if these findings are indicative of the credit's effects for target youth, results from the Employer Survey require replication from other data sources before they can be considered conclusive. This section discusses results from sources that permit identification of target group members.

CBO estimates using data from the Current Population Survey show that the TJTC may increase employment for TJTC-eligible youth, without adversely affecting employment rates for other youth. Results were obtained by estimating an equation that predicts the probability of employment for youth, with the intensity of TJTC vouchering activity by the state as one of the explanatory variables. Estimates for 1983 showed that more vouchering activity, relative to the size of the eligible population in the state, was associated with an increased probability of employment for disadvantaged youth in the state but had no significant effect on the probability of employment for other youth. Estimates for 1982, however, showed no significant impact on employment for either group from TJTC vouchering (see Appendix B).

The greater estimated effect for 1983 is perhaps accounted for by two factors--the economic recovery and more vigorous promotional activity by the Employment Service in 1983. It is also possible, however, that the introduction in 1983 of an allocation formula for TJTC administrative funds based on the number of TJTC certifications issued induced Job Service personnel to encourage employers to certify more of the TJTC-eligible workers they hired even though the credit was not a factor in the hiring decision. Hence, these results are consistent with a range of hypotheses about the effect of the TJTC on target youth employment--from no effect to a very substantial effect relative to the level of vouchering activity.

Findings from a demonstration program for TJTC-eligible youth indicated that the credit helped to place youth in jobs. Although it is not possible to separate entirely the effects of the tax credit from other features of this demonstration, including pre-screening of applicants and job development efforts, these are additional features that Job Service personnel could provide. The program succeeded in increasing employment rates for participants relative to a comparison group, and more than half of the employers who hired a youth participant said that anticipated savings due to the TJTC were a factor in their decision to hire. Pre-screening by the Job Service was more important than savings from the tax credit, though, since 90 percent of employers who hired a participant cited that as a factor in their decision. 2/

On the other hand, results from two controlled experiments with the TJTC, done in 1980 and 1981, found that AFDC and general assistance recipients who were taught to advertise their eligibility for a tax credit were less likely to get jobs than similar job applicants who did not mention their eligibility to prospective employers. 3/ One reason for this might be that the applicants were not able to explain the benefits of the tax credit effectively. Or, the knowledge that they were welfare recipients might have caused employers to lower their assessment of job-seekers by more than the value of the tax credit. Due to premature termination of one experiment and to methodological flaws in the other, the findings from these experiments are not conclusive even for the public assistance groups served, though. 4/ Further, is it not clear that findings for public assistance

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2. See Public/Private Ventures, "Reducing the Costs of Labor Market Transactions for Private Sector Employers and Disadvantaged Youth," December 1982.

3. See Gary Burtless and John Cheston, "The Montgomery County (Dayton) Ohio Wage-Subsidy Voucher Experiment: Initial Findings," U.S. Department of Labor, Office of the Assistant Secretary for Policy, Evaluation, and Research (July 1981). Also see Jean Badeau and others, "Jobs Tax Credits--The Report of the Wage Bill Subsidy Research Project, Phase II," Wisconsin Department of Health and Social Services and Institute for Research on Poverty (January 1982).

4. These findings are contradicted by employer responses to a survey conducted in 1983, in which it was determined that knowledge

recipients will also apply to the youth target group, who do not necessarily carry the stigma of being welfare recipients.

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4. (Continued)
(provided on job applicant forms) that applicants were eligible for the TJTC increased employers' assessment of the desirability of hiring them for clerical positions, and had no significant effect on employers' assessments for other jobs. But employers in this survey may have been responding on the basis of their experience with cooperative education students, who are no longer eligible unless they are disadvantaged.

APPENDIX A. EMPLOYER SURVEY: DATA AND METHODOLOGY

A size-stratified random sample of for-profit firms in 28 sites around the country was interviewed in early 1980, and reinterviewed in early 1982. The sites chosen for the survey included both urban and rural regions from all areas of the country except the northeast (see Table A-1).

There were 5,301 respondents to the first interview and 3,710 respondents to the second interview--a 70 percent response rate to the reinterview. After adjusting respondent weights to reflect differences in response rates among sites and firm-size strata, comparison of weighted versus unweighted counts of firms that used the TJTC indicates that TJTC users were more likely to respond to the reinterview survey than non-users (see Table A-2). This should have little effect on behavioral estimates obtained from regression analysis, though, since nonusers are well represented in the sample and there is no reason to believe that nonusers who responded were systematically different from those who did not.

Regression equations were estimated in order first to identify the determinants of TJTC use and then to measure the effect of TJTC use on the share of employment going to youth (under age 25) and on total employment in the firm. The share of employment going to youth was used

TABLE A-1. GEOGRAPHIC COVERAGE OF THE EMPLOYER SURVEY

Site	Total Private Employment in Site (1980)	Counties
Alabama		
Mobile	115,738	Baldwin, Mobile, Escambia (in Florida)
Birmingham	271,202	Jefferson, Shelby, Walker
Colorado		
Weld County	25,207	Weld
Alamosa County	20,000	Alamosa
Logan, El Paso Counties	37,348	Logan, El Paso
Florida		
Pensacola	77,684	Escambia, Okaloosa, Santa Rosa
Kentucky		
Pike County	15,645	Pike
Harlan County	8,382	Harlan
Louisiana		
Baton Rouge	104,299	East Baton Rouge Parish
Lake Charles	87,457	Calcasieu Parish, Lafayette Parish
New Orleans	211,892	Orleans Parish
Missouri		
Central Missouri	30,067	Carroll, Chariton, Johnson, Lafayette, Pettis, Saline
South Missouri	38,165	Bolinger, Cape Girardeau, Iron, Perry, St. Francis, Ste. Genevieve
Northwest Missouri	39,847	Buchanan, Caldwell, Clinton, Daviess, Grundy, Livingston
Ohio		
Columbus	303,325	Franklin
Cincinnati	402,091	Hamilton
Toledo	171,451	Lucas
Dayton	250,000	Montgomery

TABLE A-1. (Continued)

Site	Total Private Employment in Site (1980)	Counties
Texas		
Beaumont-Port Arthur	114,064	Hardin, Jefferson, Orange
Corpus Christi	103,532	Arkansas, Bee, Brooks, Duval, Jim Wells, Kenedy, Kleberg, Live Oak, McMullen, Nueces, San Patricio
San Antonio	288,855	Bexar, Comal, DeWitt, Gonzalez, Guadalupe, Karnes, Victoria, Wilson
Virginia		
Buchanan, Dickenson Counties	14,861	Buchanan, Dickenson
Washington		
Southwest Washington	43,216	Cowlitz, Grays Harbor, Pacific, Wahkiakum
Skagit, Whatcom Counties	36,959	Skagit, Whatcom
Olympic Peninsula	20,453	Jefferson, Lewis, Mason, Skamania
Wisconsin		
Marathon County	30,978	Marathon
Outagamie County	43,113	Outagamie
Winnebago County	45,313	Winnebago

SOURCE: John Bishop, ed., Subsidizing On-the-Job Training: An Analysis of a National Survey of Employers, National Center for Research in Vocational Education, and Institute for Research on Poverty (1982), p. 18.

TABLE A-2 ESTIMATED USE OF THE TJTC BY SURVEY RESPONDENTS AND BY ALL EMPLOYERS IN THE SURVEY SITES, 1982

Type of Employer	Percent of Respondents That Used the TJTC	Estimated Percent of Firms in Survey Sites That Used the TJTC a/
By Number of Employees		
4 or less	11	4
5-19	16	10
20-49	22	12
50-199	31	21
200 or more	45	44
By Industry		
Agriculture	0	0
Mining	10	2
Construction	17	8
Manufacturing	28	13
Transport/Utilities	16	6
Wholesale/Retail Trade	20	11
Finance	18	5
Other Services	23	10
All Employers	21	10

SOURCE: 1982 Employer Survey.

a. Responses are weighted to reflect the probability of inclusion in the sample to obtain these estimates.

as a measure of the effect of the TJTC on shifting employers' hiring toward targeted groups since the largest target group is disadvantaged youth under age 25.

Determinants of TJTC Use

A logistic regression equation was estimated, in which the variable to be explained was whether or not the firm had claimed a tax credit for targeted workers hired during 1980 or 1981. One set of explanatory variables identified TJTC outreach efforts made toward employers. Other explanatory variables included firm employment characteristics, attitudes of the employer, industry and regional identifiers, and the local unemployment rate.

TJTC program outreach efforts were significant determinants of TJTC use by employers (see Table A-3). The probability of use was higher by 21 percentage points among firms that were contacted by the Job Service or some other agent to inform them about the TJTC, compared to firms that had no formal contact. The probability of use was higher by 32 percentage points for firms that were contacted and also asked to accept referrals of eligible workers, relative to firms with no formal contact. 1/

In addition, use of the TJTC was more likely for larger firms, and for firms with a larger proportion of the work force under age 25 at the start of the survey period. Employment growth was positively, but weakly, related

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1. The change in the probability of TJTC use was calculated as the difference in the value of the logistic equation evaluated first with the outreach variables set to one and then set to zero.

to TJTC use.[2] Employers who had demonstrated a willingness to fire unsatisfactory employees were more likely to use the credit, as were employers whose attitudes toward government programs were favorable. The probability of use was highest for firms in the service or wholesale and retail trade industries, after controlling for other factors. Use was not related to local unemployment rates, nor did it vary significantly by region when other factors were held constant (see Table A-3).

Effects on Employment

Least squares regression equations were estimated for the percent of firm employment in 1982 that was under age 25, for the ratio of youth employment for 1982 relative to 1980, for average total employment in 1981, and for the ratio of total employment for 1981 relative to 1980. The explanatory variable of primary interest was whether the firm had used the TJTC during the survey period. Estimates for the effect of TJTC use on employment were obtained first using the actual incidence of TJTC use (ordinary least squares) and then using predicted TJTC use (two-stage least squares). The two-stage least squares estimates were intended to eliminate any bias in the estimated coefficients that would result if some of the

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2. Although a two-way causal relationship between TJTC use and employment growth is posited by the equations specified in Tables A-3 and A-7, no attempt to get two-stage least square estimates for the coefficient of employment growth was made since the best equation for employment growth explained only 2 percent of its variation in the sample.

TABLE A-3. DETERMINANTS OF TJTC USE BY FIRMS FOR 1980 AND 1981

Explanatory Variables	Estimated Coefficients (and Standard Errors)
Intercept	-5.412 (0.736)
Firm Characteristics:	
Employment growth (ratio of 1981 over 1980)	0.227 (0.144)
Log firm size (1980)	0.222 (0.047)*
Percent of workers who are under 25 (1980)	0.008 (0.003)*
Firing flexibility (0,1)	0.401 (0.144)*
Employer Attitude to Government Programs (0,1) a/	
Favorable	0.468 (0.225)*
Unfavorable	-0.108 (0.134)
Outreach (0,1) b/	
Informed of the program	2.123 (0.145)*
Asked to accept eligible referrals	0.555 (0.134)*
Local Unemployment Rate (average for 1980 and 1981)	-0.004 (0.055)
Industry (0,1) c/	
Construction	0.568 (0.594)
Manufacturing	0.709 (0.534)
Transport/Utilities	0.436 (0.628)
Wholesale/Retail Trade	1.056 (0.521)*
Finance	0.851 (0.568)
Other Services	1.129 (0.526)*
Region (0,1) d/	
South	0.035 (0.142)
West	-0.079 (0.182)
R^2	.24
Sample Size	2,955

TABLE A-3. FOOTNOTES

*	Significant at .05 for a two-tailed test.
NOTE:	The estimated coefficients were obtained from a logistic regression.
a.	The reference group is employers who expressed no strong opinion.
b.	The reference group is firms who had no formal contact concerning the tax credit.
c.	The reference industries are agriculture and mining.
d.	The reference region is the North Central states.

correlation between TJTC use and the employment measure was due to the greater likelihood that rapidly growing firms or firms that were altering their production techniques to use lower-skill labor anyway would find it advantageous to use the TJTC even though it did not influence their hiring decisions.

The estimates show that the share of employment that was under age 25 was at least 6 percent higher in firms that had used the TJTC over the survey period, relative to similar firms that did not use the credit. 3/ This result emerges both from the equation in which the variable to be explained is the percent of youth employment (Table A-4) and from the equation in which the variable to be explained is the change in the percent

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3. The share of youth employment actually dropped by 7 percent, on average, over the survey period. It dropped only 2 percent in firms that used the TJTC, compared to a drop of 8 percent in firms that did not use the credit.

TABLE A-4. EFFECT OF THE TJTC ON THE PERCENT OF FIRM EMPLOYMENT THAT IS UNDER AGE 25 IN 1982

	Estimated Coefficients (and Standard Errors)	
Explanatory Variables	Ordinary Least Squares Regression	Two-Stage Least Squares Regression a/
Intercept	3.679 (2.655)	3.803 (2.656)
TJTC Use in 1980 or 1981 (0,1) b/	1.969 (0.669)*	3.814 (1.680)*
Employment Growth (ratio of 1981 over 1980)	3.875 (0.726)*	3.851 (0.726)*
Local Unemployment Rate (average for 1980 and 1981)	-0.533 (0.224)*	-0.554 (0.224)*
Percent Employment Under 25 in 1980	0.831 (0.010)*	0.830 (0.010)*
Industry (0,1) c/		
Construction	-3.834 (2.002)	-3.797 (2.003)
Manufacturing	-1.366 (1.912)	-1.484 (1.918)
Transport/Utilities	-0.026 (2.196)	-0.076 (2.197)
Wholesale/Retail Trade	0.299 (1.800)	0.283 (1.802)
Finance	-1.773 (2.011)	-1.820 (2.013)
Other Services	-1.312 (1.827)	-1.307 (1.829)
Region (0,1) d/		
South	0.012 (0.585)	-0.037 (0.585)
West	-0.613 (0.746)	-0.677 (0.746)
R^2	.68	.68
Sample Size	3,172	3,172

* Significant at .05 for a two-tailed test.

TABLE A-4. FOOTNOTES

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a. A predicted value is used for TJTC use in 1980 or 1981, calculated from a preliminary regression of TJTC use on exogenous determinants.

b. The mean of youth employment in the sample was 26.84. At the mean, the ordinary least squares results imply that youth employment was 1.969 percentage points--or 7 percent--higher in firms that used the TJTC relative to those that did not use it. The two-stage least squares results indicate that youth employment was 3.814 percentage points—or 14 percent—higher.

c. The reference industries are agriculture and mining.

d. The reference region is the North Central states.

of youth employment from 1980 to 1982 (Table A-5). When a predicted value for TJTC use was substituted in the estimating equation to eliminate possible biases from reverse causation (the two-stage least squares regression technique), the estimated effect of TJTC use on youth employment increased in size and significance, indicating that the estimated effect of TJTC use on youth employment is not just due to simultaneous-equations bias. Although the two-stage least squares estimates indicate that youth employment may be from 14 to 20 percent higher in firms that used the TJTC over the survey period, confidence in these estimates is low since the estimating equation used to obtain a predicted value for TJTC use explains only 21 percent of its variation.

TABLE A-5. EFFECT OF THE TJTC ON THE CHANGE IN THE PERCENT OF FIRM EMPLOYMENT THAT IS UNDER AGE 25 IN 1982

	Estimated Coefficients (and Standard Errors)	
Explanatory Variables	Ordinary Least Squares Regression	Two-Stage Least Squares Regression a/
Intercept	1.111 (0.145)	1.110 (0.145)
TJTC Use in 1980 or 1981 (0,1)	0.062 (0.037)	0.205 (0.092)*
Employment Growth (ratio of 1981 over 1980)	0.148 (0.040)*	0.147 (0.040)*
Local Unemployment Rate (average for 1980 and 1981)	-0.030 (0.013)*	-0.032 (0.013)*
Industry (0,1) b/		
Construction	-0.173 (0.108)	-0.175 (0.108)
Manufacturing	-0.106 (0.102)	-0.118 (0.103)
Transport/Utilities	-0.118 (0.122)	-0.122 (0.122)
Wholesale/Retail Trade	-0.082 (0.097)	-0.088 (0.097)
Finance	-0.158 (0.111)	-0.167 (0.111)
Other Services	-0.052 (0.099)	-0.058 (0.099)
Region (0,1) c/		
South	-0.036 (0.033)	-0.037 (0.033)
West	-0.027 (0.042)	-0.028 (0.042)
R^2	.01	.01
Sample Size	2,653	2,653

* Significant at .05 for a two-tailed test.

a. A predicted value is used for TJTC use in 1980 or 1981, calculated from a preliminary regression of TJTC use on exogenous determinants.

b. The reference industries are agriculture and mining.

c. The reference region is the North Central states.

There was no consistent evidence that TJTC use induced net new employment overall, however. Total employment grew by 2 percent, on average, over the survey period both in firms that used the TJTC and those that did not. Using the level of employment as the dependent variable, regression estimates imply that employment was about 3 percent higher, at the mean, in firms that used the TJTC over the survey period compared to similar firms not using the credit. When a predicted value for TJTC use was substituted, the estimated effect increased to about 12 percent (Table A-6). When change in employment was the dependent variable, though, the effect of TJTC use on employment was small and nonsignificant (Table A-7).

In summary, findings from this survey indicate that firms using the credit shifted hiring toward youth, relative to firms that did not use the credit, but clear evidence for net new employment is lacking. Further, there is no way from this survey to assess the effects of the TJTC on aggregate (economy-wide) target group employment or on overall employment. It is possible that the credit just shifted the site of youth employment from other firms to those that used the credit, but the results reported in Appendix B make that seem unlikely.

TABLE A-6. EFFECT OF THE TJTC ON TOTAL FIRM EMPLOYMENT FOR 1981

	Estimated Coefficients (and Standard Errors)	
Explanatory Variables	Ordinary Least Squares Regression	Two-Stage Least Squares Regression a/
Intercept	5.844 (3.455)	5.817 (3.452)
TJTC Use in 1980 or 1981 (0,1) b/	1.940 (0.907)*	7.523 (2.345)*
Sales Growth (1980 to 1982)	4.171 (0.710)*	4.038 (0.712)*
Local Unemployment Rate (average for 1980 and 1981)	-0.645 (0.304)*	-0.686 (0.304)*
Firm Employment for 1980	0.980 (0.002)*	0.979 (0.002)*
Industry (0,1) c/		
Construction	-4.571 (2.723)	-4.509 (2.720)
Manufacturing	-3.854 (2.605)	-4.235 (2.608)
Transport/Utilities	1.335 (2.987)	1.304 (2.984)
Wholesale/Retail Trade	-2.273 (2.452)	-2.441 (2.450)
Finance	-0.008 (2.786)	-0.132 (2.784)
Other Services	-1.955 (2.491)	-2.100 (2.489)
Region (0,1) d/		
South	0.427 (0.800)	0.410 (0.799)
West	-0.120 (1.024)	-0.168 (1.023)
R^2	.99	.99
Sample Size	3,201	3,201

* Significant at .05 for a two-tailed test.

a. A predicted value is used for TJTC use in 1980 or 1981, calculated from a preliminary regression of TJTC use on exogenous determinants.

b. The mean of total employment in the sample was 60.2. At the mean, the ordinary least square results imply that employment was higher by 1.9 employees--or 3 percent--in firms that used the TJTC relative to those that did not use it. The two-stage least squares results indicate that employment was higher by 7.5 employees--or 12 percent.

c. The reference industries are agriculture and mining.

d. The reference region is the North Central states.

TABLE A-7. EFFECT OF THE TJTC ON THE CHANGE IN TOTAL FIRM EMPLOYMENT

	Estimated Coefficients (and Standard Errors)	
Explanatory Variables	Ordinary Least Squares Regression	Two-Stage Least Squares Regression a/
Intercept	0.974 (0.062)	0.973 (0.062)
TJTC Use in 1980 or 1981 (0,1)	-0.007 (0.016)	0.026 (0.041)
Sales Growth (1980 to 1982)	0.084 (0.013)*	0.083 (0.013)*
Local Unemployment Rate (average for 1980 and 1981)	0.004 (0.005)	0.003 (0.005)
Industry (0,1) b/		
Construction	0.003 (0.049)	0.002 (0.049)
Manufacturing	-0.033 (0.047)	-0.037 (0.047)
Transport/Utilities	-0.033 (0.054)	-0.034 (0.054)
Wholesale/Retail Trade	-0.037 (0.044)	-0.039 (0.044)
Finance	-0.014 (0.050)	-0.015 (0.050)
Other Services	-0.021 (0.045)	-0.023 (0.045)
Region (0,1) c/		
South	0.030 (0.014)*	0.030 (0.014)*
West	-0.016 (0.018)	-0.016 (0.018)
R^2	.02	.02
Sample Size	3,193	3,193

* Significant at .05 for a two-tailed test.

a. A predicted value is used for TJTC use in 1980 or 1981, calculated from a preliminary regression of TJTC use on exogenous determinants.

b. The reference industries are agriculture and mining.

c. The reference region is the North Central states.

APPENDIX B. CURRENT POPULATION SURVEY: DATA AND METHODOLOGY

A subsample composed of all youth age 18 to 24 was selected from the March 1983 Current Population Survey (CPS). This subsample was divided into two groups—those whose family income for 1982 would have made them eligible for the TJTC, and other, higher-income youth. 1/

Logistic regression equations were estimated, separately for each of these two groups, in which the variable to be explained was the incidence of employment for individuals either sometime during 1982 or during the survey week in March 1983. A measure of TJTC program activity was included as one of the explanatory variables. The measure used was the voucher rate, defined as the ratio of vouchers issued for youth age 18 to 24 over the size of that target population in each state. Other explanatory variables included state-level measures for labor market conditions and Job Service activity as well as individual demographic variables.

The voucher rate was not significantly related to employment rates during 1982, either for the TJTC-eligible group of youth or for other youth

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1. Eligibility determination was based on annual family income for 1982, although in practice TJTC eligibility is based on family income for the six months prior to application. As a result, some of the youth classified as ineligible could have been eligible for the TJTC sometime during the year.

(see Table B-1). It was significantly related to employment for the TJTC-eligible group--but not for other youth--during the survey week in March 1983, though (see Table B-2). 2/ The results for March 1983 apparently indicate that the TJTC increased the probability of employment for eligible youth without adversely affecting employment prospects for other youth. It is not clear, however, why the effect exists for employment during the survey week but not for the previous year, although there are two factors that might account for this. One is that employment was declining throughout most of 1982, but began to recover at the end of the year, increasing the prospects for positive effects from TJTC program activity. A second factor is that the U.S. Employment Service began to encourage local Job Service offices to implement the TJTC more vigorously beginning in 1983.

The estimates for March 1983 imply that each additional voucher was associated with about 0.4 additional jobs for TJTC-eligible youth. 3/ Since 45 percent of vouchers reflected certified jobs in 1983, the most sanguine interpretation of these results would be that nearly all TJTC-certified jobs

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2. The results for 1983 are robust, in that they emerge in a variety of specifications for the equation. These include restricting the sample to those who had no employment during 1982, or using the data on individuals to construct employment rates by state and using the voucher rate and other state-specific variables to predict the employment rate.

3. An increase in the annual voucher rate of 1 percentage point increases the estimated probability of employment for TJTC-eligible youth by 0.41 percentage points.

TABLE B-1. LOGISTIC REGRESSION EQUATIONS ESTIMATING THE INCIDENCE OF EMPLOYMENT IN 1982

Explanatory Variables	Estimated Coefficients (and Standard Errors)	
	Low-Income Youth	All Other Youth
Intercept	-2.14 (0.78)	-0.60 (0.50)
State-Specific Variables:		
Annual voucher rate (82)	-1.04 (1.06)	-0.50 (0.63)
Job service activity (82)	4.22 (1.19)*	1.39 (0.77)
Industry mix (82)	3.60 (1.17)*	0.65 (0.71)
Unemployment rate (82)	-0.04 (0.02)*	-0.06 (0.01)*
Person-Specific Variables:		
Age (In years)	-0.02 (0.02)	0.04 (0.01)*
Black (0,1)	-0.64 (0.09)*	-0.91 (0.08)*
Other nonwhite (0,1)	-0.87 (0.16)*	-0.84 (0.12)*
Family status (0,1)--Male, Married, with children (Y or N): a/		
NNN	-0.48 (0.09)*	-0.18 (0.06)*
NNY	-1.27 (0.17)*	-1.59 (0.15)*
NYN	-1.30 (0.12)*	-1.25 (0.07)*
NYY	-1.78 (0.38)*	-1.86 (0.22)*
YNY	1.42 (1.11)	0.04 (0.76)
YYN	0.95 (0.18)*	1.38 (0.20)*
YYY	1.28 (0.65)*	0.29 (0.48)
Education (In years)	0.15 (0.02)*	0.21 (0.01)*
Enrolled (0,1)	-0.57 (0.09)*	-1.44 (0.06)*
Central City (0,1)	-0.19 (0.09)*	-0.25 (0.06)
Non-SMSA (0,1)	0.20 (0.10)	-0.11 (0.06)
R^2	.10	.13
Sample Size	3,579	15,613

* Significant at .05 on a 2-tailed test.

a. The reference group is YNN--male, unmarried, and no children.

TABLE B-2. LOGISTIC REGRESSION EQUATIONS ESTIMATING THE INCIDENCE OF EMPLOYMENT IN MARCH 1983

	Estimated Coefficients (and Standard Errors)	
Explanatory Variables	Low-Income Youth	All Other Youth
Intercept	-2.40 (0.78)	-1.23 (0.38)
State-Specific Variables:		
Annualized voucher rate (83)	1.92 (0.69)*	0.39 (0.32)
Job service activity (83)	1.47 (1.06)	0.13 (0.52)
Industry mix (82)	0.54 (1.16)	0.28 (0.53)
Unemployment rate (83)	-0.06 (0.02)*	-0.04 (0.01)*
Person-Specific Variables:		
Age (In years)	-0.00 (0.02)	0.03 (0.01)*
Black (0,1)	-0.81 (0.11)*	-0.72 (0.07)*
Other nonwhite (0,1)	-0.82 (0.18)*	-0.56 (0.11)*
Family status (0,1)--Male, Married, with children (Y or N): a/		
NNN	-0.19 (0.09)*	0.29 (0.05)*
NNY	-0.99 (0.20)*	-1.07 (0.15)*
NYN	-1.19 (0.13)*	-0.79 (0.05)*
NYY	-1.97 (0.54)*	-1.67 (0.23)*
YNY	-0.04 (0.88)	-0.48 (0.49)
YYN	0.87 (0.15)*	0.75 (0.09)*
YYY	0.44 (0.47)	-0.29 (0.28)
Education (In years)	0.21 (0.02)*	0.17 (0.01)*
Enrolled (0,1)	-1.32 (0.11)*	-2.10 (0.05)*
Central City (0,1)	-0.22 (0.10)*	0.06 (0.05)
Non-SMSA (0,1)	-0.04 (0.10)	-0.18 (0.05)*
R^2	.12	.17
Sample Size	3,579	15,613

* Significant at .05 on a 2-tailed test.

a. The reference group is YNN--male, unmarried, and no children.

were additional jobs for target youth. Employment among eligible youth did not necessarily increase by this full amount, though, since some of the association could be due to greater efforts by Job Service personnel to certify workers that employers would have hired anyway. Job Service personnel had no incentive to do this in 1982, but did in 1983 due to the introduction of an allocation formula for TJTC administrative funds based on the number of TJTC certifications they issued. Consequently, these results are consistent with a range of hypotheses about how effective the TJTC was at increasing the employment prospects of youth who were eligible for the credit—from no effect, so that the credit was a windfall benefit to employers, to a very substantial effect. Neither extreme seems likely, though.

In sum, the TJTC probably resulted in some increased employment for eligible youth in 1983, but the amount is uncertain. Further, it seems clear that employment gains for eligible youth did not come at the expense of nonpoor youth, perhaps because employers structured their hiring practices to favor youth in general in order to increase their chances of obtaining TJTC-eligible workers. If no net new employment was generated by the credit, though, employment gains for youth were at the expense of adult workers.

Chairman STARK. Thank you very much.

Referring to the job training partnership, if you used that definition for disadvantaged, what do you suppose the tax credit would increase? Can you guess?

Mr. HANUSHEK. We are talking about a 15- to-20 percent increase in the total revenue losses.

Chairman STARK. The program almost doubled in 1983?

Mr. HANUSHEK. It increased by about 40 percent in 1983 over 1982, when it had gone down because of the changes in eligibility.

Chairman STARK. Why?

Mr. HANUSHEK. I think it is a combination of factors. First, we had an expanding economy, which made all jobs easier to find. But also, over time, employers have learned more about this program, and the employment service, I believe, has become more active in trying to place people under this program.

Chairman STARK. Do you find generally that the subsidized jobs are different from unsubsidized jobs within, say, the same industry? I know your report shows that certain industries tend to concentrate, but within, say, the retail industry, the manufacturing industry, did you find that there is a difference?

Mr. HANUSHEK. The largest difference is, of course, the different industry distribution or occupational and industry distribution of employment. But there is a little bit of evidence on the wages paid that suggests that subsidized jobs pay slightly lower wages than the average held by nonpoor youth and other low-income youth, although the wage data are notoriously bad for these sorts of things.

Chairman STARK. I guess what I am getting at is, let us say in the fast food industry, if they are a large user of this tax credit, were the jobs of the people who qualified for the credit different from the jobs that others took in the same industry?

Mr. HANUSHEK. No.

Chairman STARK. In the other employment programs that we have on which we spend, staff tells me, about $4 billion a year, what does the targeted jobs tax credit add or do presently that is different from the other programs?

Mr. HANUSHEK. The other major programs are formal training programs that generally operate in an institutional setting, and the idea behind the jobs credit is to place disadvantaged workers directly in private industry.

There is no specific training component, and the main idea is that it establishes an employment history that may be beneficial in securing future employment.

Chairman STARK. Do you think it might be more beneficial than just employment under the targeted jobs?

Mr. HANUSHEK. Training programs are necessary for workers who are lacking job skills. The tax credit is intended for job-ready workers, for whom the higher costs of training programs would not be cost-effective.

There is a component of the Job Training Partnership Act that allows tryout employment, where job-ready workers can work for up to 250 hours at no cost to the firm, completely subsidized by the program. That has not been used very much as of yet, and we don't have any real evidence about its effectiveness.

Chairman **Stark**. But that is really only about $750 to the employer as opposed to $3,000 to $4,500 over a 2-year period. It would seem logical that the employer, if he is going to do anything, would like a bigger chunk of cash, it seems to me.

Mr. **Hanushek**. That is not quite the correct comparison, because the typical worker under the jobs tax credit won't remain in the subsidized job for a full 2 years. The average youth worker only holds his job for about 4 months——

Chairman **Stark**. He doesn't return?

Mr. **Hanushek**. That's right. Short job duration is characteristic of the youth labor market—for all youth, not just those eligible for the jobs tax credit.

Chairman **Stark**. Do you have figures on the distribution, in other words, what percentage of those qualifying for the targeted jobs credit work 3 months, 6 months, 9 months? Do you have that? Do you have a distribution on that?

Mr. **Hanushek**. I am sorry. All I have right now is the average job duration. I don't have the complete distribution.

Chairman **Stark**. What is the average job?

Ms. **Christensen**. We only have information on average job duration for the youth group, and that is about 4 months. For the other groups, we have no information.

Chairman **Stark**. So what you are saying is that it is a very short period of time and no really ongoing effects that you can determine for that?

Mr. **Hanushek**. To the extent that the credit enables some workers to break into the labor market and thereafter move into an unsubsidized job, there are long-term benefits.

Chairman **Stark**. I guess, then, that would take half the cost of the program?

Mr. **Hanushek**. I am sorry, sir?

Chairman **Stark**. You could extrapolate and say that half the cost of the program is going to youths who work an average of 4 months?

Mr. **Hanushek**. Four months or less.

Chairman **Stark**. Or less?

Mr. **Hanushek**. Right.

Chairman **Stark**. So, basically, then, under the costs that we are estimating of perhaps as much as $3.5 billion, half of that is going into the very short-term jobs?

Mr. **Hanushek**. You are referring to the training program with the $3.5 billion?

Chairman **Stark**. No, I am referring to the 5-year extension. The joint tax committee staff—my arithmetic might be sloppy. $163 million, $536 million, $914 million, $950 million, and $904 million comes out somewhere around $3.5 billion over the 5-year period.

Mr. **Hanushek**. We added those numbers to $2.9 billion.

Chairman **Stark**. That was for the 3-year extension, $2.9 billion.

Ms. **Christensen**. Yes.

Chairman **Stark**. The 5-year extension is $3.5 billion; 1 year, about $1.25 billion. So half of those numbers would be going to people who work——

Mr. **Hanushek**. We don't know the complete distribution.

Chairman STARK. So far as your figures show, I think it would be safe to say that half of that money is going to 4-month-or-less employees?

Mr. HANUSHEK. We don't know for sure. The Joint Tax Committee estimates assume that half the costs are for people who stay in a subsidized job for at least a year. Workers whose job duration is very short don't cost much under the credit program.

Chairman STARK. Thank you very much.

Mr. Duncan?

Mr. DUNCAN. Thank you, Mr. Chairman.

If the credit were allowed to expire, what do you think the impact on the targeted workers would be? Would they be fired or would they have a more difficult time finding a job? What would be the impact?

Mr. HANUSHEK. I think that in part relates to this previous question. None of the currently employed workers are going to be affected, as I understand it. Everybody who is currently eligible will be able to get the credit for the duration of their employment.

What you will do is have, by our estimates, a smaller number of these targeted workers employed in the future.

Mr. DUNCAN. Do you have any idea of what impact it will have upon the employers that were using the targeted workers?

Mr. HANUSHEK. Well, we have to presume that the employers would be worse off because they are, it appears, getting advantages from this tax credit. But we cannot estimate——

Mr. DUNCAN. Would they in turn perhaps hire a different mix of employees other than what they have been hiring?

Mr. HANUSHEK. Yes, sir, that is what we believe would happen.

Mr. DUNCAN. The youth summer credit, was that used heavily?

Mr. HANUSHEK. No, sir, that has not been used very heavily at all. I think that there are some reasons—lack of knowledge about the program, its being announced fairly late—that a lot of employers did not get in on using that.

The summer employment is a substantial credit—85 percent of the first $3,000. Yet only about 30,000 employees were certified during the summer of 1983. I think we can expect that to grow.

Mr. DUNCAN. You indicated that you had a large dropout among the youth. Why was that? You indicated you had a large dropout in the program, the targeted jobs program, among the youthful workers.

Mr. HANUSHEK. Let me reiterate that all of the evidence I am providing is really for the youth workers, who constitute about two-thirds of the total certifications under the program. We really don't have data that——

Mr. DUNCAN. Why do they drop out in such large numbers?

Mr. HANUSHEK. Well, they don't behave much differently from other youth. Youth in these age groups typically hold jobs for quite a short period of time. They turn to other jobs or school or leave the labor force. There is a lot of churning of the youth labor market in general, so that these people under the tax credit do not appear to be different from other youth.

Mr. DUNCAN. Would you have those, also, who drop out or quit because of other Government incentives that we have maybe not to work?

Mr. **Hanushek**. That may be a factor. There is whole series of reasons why youth keep changing jobs.

Mr. **Duncan**. Thank you, and thank you, Mr. Chairman.

Chairman **Stark**. Thank you very much, Mr. Hanushek. We appreciate your testimony.

Our next witness will be the distinguished gentleman from New York, Congressman Rangel.

STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Rangel**. Mr. Chairman, thank you for the courtesy in allowing me to testify out of order, and I thank Mr. Duncan, of course, for being so faithful in attending these meetings, as he always is with the full committee and the subcommittee.

I ask the committee's consent to put my full statement in the record and to briefly summarize it.

Chairman **Stark**. Without objection, it will appear in its entirety at the conclusion of your oral presentation.

Mr. **Rangel**. Mr. Chairman and Mr. Duncan, I think this is one bad way to take care of the problems that our disadvantaged have today, but since the President and so many others are talking about this great economic recovery, I suppose we might describe this targeted jobs credit as being some type of a safety network to try to catch those people that the recovery certainly is not reaching.

And who are we talking about? We are talking about people that have given up hope, that have limited skills, that cannot enter into the labor market and sometimes are not even a part of the statistical data encompassing those who are unemployed.

What we are trying to do is to follow the partnership concept with the private sector by saying, at least give some incentives for employers to hire these people, to teach them some skills, and then to wane off the credit and to assimilate them into the work force.

It does not seem to me that this is some great "profile in courage" or that this is going to go down as one of the proudest moments in the Congress for passing it. I think it is very little, and I don't think it is going to do very much, but I think because of the pain, the suffering, and the heartache that the recent recession has caused for some, and certainly the depression for others, that this might be a way to get people off of dependency and to get them into the work force.

At least over half a dozen members of the tax-writing committee, both Republican and Democrat, believe that at a time when so many unemployed Americans are traveling a rough economic road, this might be some way to attempt to recognize their existence.

I thank you for that opportunity. My full statement goes into far more detail.

[The prepared statement follows:]

Statement of Hon. Charles B. Rangel, a Representative in Congress From the State of New York

Good morning, it is indeed a pleasure to appear before my colleagues on the Select Revenues Subcommittee. As the original author of the targeted jobs tax credit and the primary sponsor of H.R. 5094 which is being considered by the subcommittee as part of these hearings, I want to take this opportunity to thank Chairman Stark for holding these hearings. As you know, the targeted jobs tax credit is due to expire at the end of this year unless we act soon to extend it.

Since its enactment, the targeted jobs tax credit has proven to be an effective tool for getting the structually unemployed off the Government assistance rolls and into productive private sector jobs. Clearly, those who are eligible: (1) Economically disadvantage youth aged 16 through 19 in cooperative education programs (2) youth aged 18 through 24 from economically disadvantaged families (3) handicapped individuals undergoing vocational rehabilitation (4) economically disadvantage former convicts (5) economically disadvantage Vietnam-era veterans (6) general assistance recipients (7) AFDC recipients (8) SSI recipients (9) involuntarily terminated CETA workers.

All have the weakest links with the labor market and thus need some form of assistance to encourage employers to take a chance and hire them.

Despite the fact that unemployment has dropped during the economic recovery, those eligible for the targeted jobs tax credit have seen little improvement in their ability to find work. Unemployment among our youth, those on welfare and those with few jobs skills has remained alarmingly high. And there is little opportunity for these individuals to get the skills that they need to become desirable as employees.

Unfortunately, in eliminating CETA and cutting back on summer jobs for youth, the Reagan Administration has drastically reduced the opportunities for acquiring the skills desired by employers. We must not and cannot give up on this segment of the population. By removing opportunity for improvement, we are condemning them to a life without hope.

The targeted jobs tax credit provides employers with a direct financial incentive to do that which the Government seems no longer willing to do—take a chance those individuals who have the least job skills. TJTC is a simple, effective, easily understood private sector stimulus to hire the disadvantaged. The employer need not go through any long and involved process of applying for a Federal grant. All he has to do is either hire someone who has already been vouchered by the State Employment Office or fill out with the potential worker in eligibility form and file it on or before the day work begins.

By so doing, the employer gets a tax credit of $1 for every $2 paid the employee on the first $6,000 of wages. Thus, the employer has a significant tax incentive during the time that he is training the worker. This helps to reduce the cost of taking a chance on the TJTC eligible worker. In return, for this modest tax incentive, the Government gets a taxpaying worker, who no longer is receiving Government assistance and who's chances of getting into trouble with the law are significantly reduced to where they are almost non-existent.

The legislation that I have introduced H.R. 5094 with seven other co-sponsors from the Ways and Means Committee (Shannon, Guarini, Fowler, Downey, Ford, Hance and Campbell) would reauthorize the targeted jobs tax credit for an additional five years; increase the wage base from $6,000 to $10,000; increase the definition of economically disadvantaged from 70 percent of the Bureau of Labor Statistics lower living standard to 80 percent of the BLS lower living standard; and allow employers a five day filing grace period if they failed to file a certification for a previously vouchered worker.

A five year extension of the program is important because it provides employers with the assurance they need if they are going to continue to look for TJTC eligible workers. A five year extension will also provide the security that employers who are not now using the program would need to look into hiring TJTC workers.

Raising the wage base from $6,000 to 10,000 is important because it more accurately reflects that time and cost required to train an employee. In addition, a $10,000 wage base will provide an employer with the incentive to pay more than the minimum wage. Clearly, it is very difficult for a family to live on a minimum wage salary.

Increasing the definition of economically distressed from 70 percent to 80 percent of the BLS lower living standard will allow more disadvantaged Americans the opportunity to find employment with the assistance of TJTC. No family which is subsisting on 80 percent of the BLS lower living standard can be considered beyond the need of assistance. In many cases, such an expansion will mean that a youth will be able to find either a part time job during the year of a full time summer job which will help him stay in school.

Finally, H.R. 5094 would provide relief to an employer who hires a previously vouchered TJTC worker, but fails to file with the employment office for up to five days. This is done in an effort to protect the worker who has made the effort to get certified prior to seeking employment and who should not be penalized because of th employers's negligence in applying for certification. In addition, it is hoped that thi will encourage employers to actively seek the assistance of the State and local employment offices in finding TJTC workers. In that way, we will be assured tha TJTC workers will have a better chance of finding a Job.

Finally, I would like to encourage the subcommittee to look into the concerns of number of employers that the Government agencies involved with the credit are discouraging potential TJTC eligibles by imposing extermely burdensome "up front' income proof requirements. While I certainly would not want to encourage the certifying agencies to be lax in their certification procedures, I also recognize that many lower income Americans do not keep careful records of their income. Thus, I would ask the subcommittee to look into alternative ways of certification to those that are now in use and to encourage the certification agencies tc not impose overly burdensome verification procedures least we find that those who need our help the most are turned away because of the obstacles we put in their way.

Chairman STARK. Thank you very much.

Since you are the author of the bill which tends to extend this and make some minor changes, it would be redundant to ask you what changes you would make to make it more effective. But in the absence of the Labor Department doing their study, and the Treasury indicating to us that they have a draft of the report that was due 2 years ago, but they haven't let us see it because it hasn't been cleared yet, do you think it might be advisable to keep this program on a shorter string than 5 years? It seems that there is enough constituency for it so that we would be pressured to extend it again, but with the increased information, we might know better how to change it—we could get more employers to participate and make sure that the youth who need it most are getting it.

Mr. RANGEL. Well, I guess, on balance, there is no question that we could better legislate if all of the statistical data were before us to make certain that the groups that we are targeting are being reached and to make certain that we are not just giving breaks to employers at the expense of those would be employed but are not within the targeted group.

That has to be weighed, and I certainly hope the committee considers it. We need to give some type of security to the employers to provide them with the incentive to get involved in the program, and we need to know how long it really takes to train somebody so that he is self-sufficient and the credit is not needed.

I hope that you would direct your questions to employers to see just what time period is necessary for them to cooperate or to invest in this type of program.

But I agree, from a legislator's point of view, it would be better if we had more information.

Chairman STARK. I thank the gentleman.

Mr. Duncan?

Mr. DUNCAN. I want to thank our most able leader and member of this committee.

Mr. Rangel, I have been in the Congress 20 years, and every year we have talked about youth unemployment, and every year it has gone up.

The chairman's question is what should we do and what can we do? Apparently, what we have been doing has been wrong if it has gone up every year. Would you care to elaborate on that, as to why it has gone up all these years? We have put a lot of money in, and we have tried everything—the Jobs Corps——

Mr. **Rangel**. Mr. Duncan, I think we are going through a change in technology. Certainly in the district that I represent, the types of jobs that used to be available are now being exported overseas to Hong Kong, Korea, and the Republic of China. Communists are doing a lot of the work that we used to be able to do in the garment center in the city of New York. Many of us that are in the Congress today started off in the garment center because you didn't need a lot of skills.

In addition to that, we have gone through one of the most dramatic depressions or recessions, whatever, depending on which party you belong to, that we have had since the 1930's. Those people who have the least amount of training, of course, are caught up in this. So even if we do have a more dramatic recovery than we are having now, certainly the group that this legislation is aiming at will be the least likely group that would be able to assimilate into the work force.

So I think the problems that you are talking about really will need more than this band-aid approach. This is not resolving that problem, and we don't even have the data to indicate just how many people are being employed that would not be employed if we didn't have the targeted jobs credit.

What we do know is that it is giving a tool that these people do not have when they go before an employer, when that employer knows that the Federal Government is going into partnership in the payment for his salary.

I don't think it is much. I agree with the chairman that we need better information. But it seems to me that if we don't have what we need, this will be the worst time in recent years to discard it.

The question of how long we should have it, I think tnat that is in the hands of this committee. I think a longer period of time would be necessary. I had hoped that more detailed information as to the success of the program—since the administration supports it—would be before the committee.

But, Mr. Duncan, I think you and I know that we have to come with a more dramatic program to resolve the problems of unemployed youth. You and I both discussed the CCC, where you can bring someone in, give him some training, at least get him ready to do a meaningful job. This is not that comprehensive.

Mr. **Duncan**. I read an article some time back, and I think it was in Forbes, where a columnist indicated that something like 2 percent of people were unemployed by choice. I am sure that you know and I know, in my own community, we do have those people. I cannot tell you how many people. Do you have any information or any ideas about people who are unemployed by choice, who just don't want to work?

Mr. **Rangel**. I would like to believe that in a free society of 200 million people, we do have 2 percent that are just lazy and don't want to work, and that's what democracy is all about.

I certainly don't believe we should be reaching out there and encouraging them to be living a wasteful life, but this legislation certainly has nothing to do with them, because you could give 100 percent credit and you are not going to encourage them to work.

Mr. **Duncan**. That is right.

Thank you very much again, sir.

Mr. RANGEL. Thank you, Mr. Duncan.

I would like to take this liberty to advise Mr. Guarini that I am chairing a meeting of the Select Narcotics Committee, and your presence would be——

Mr. GUARINI. I understand we are supposed to be in three places at the same time. [Laughter.]

I want to apologize to my chairman of that committee. I was just with Chairman Paul Volcker talking about some of the bigger strokes. [Laughter.]

But as a cosponsor of your bill, Mr. Chairman, I certainly am completely in accord with the statements that you have made. I have been very, very vocal in calling for a national youth program which I think is one of the missing platforms in our Nation. It is just a pity that we have 49 percent of teenage minority youth unemployed and 18 percent of white youth unemployed, that they don't feel as though they can participate in the system; that the Government really isn't their Government and that the country really doesn't care about them.

The Civilian Conservation Corps did help, of course, considerably at one time. I look back in the records, and the Department of the Interior, about 15 years ago, when it was planning to redo Ellis Island and the Statue of Liberty, wanted to go back to the same premise of taking many of our young people and putting them actively to work in the same kind of concept as the CCC.

So these ideas are still kicking around, but I do hope that one of the major springboards of our national policy could be a national youth program, and this is a step in that direction.

I want to compliment you on a fine job.

Mr. RANGEL. Thank you, and I think that is what Mr. Duncan was talking about.

Mr. DUNCAN. You bet.

Mr. GUARINI. I will see you very soon.

Mr. RANGEL. I hope so. [Laughter.]

Mr. DUNCAN. He is now chairman here.

Mr. GUARINI [presiding]. That is right.

I would like to call Mr. Donald J. Grabowski, director of employer relations, New York State Department of Labor, and also Mr. Arnold Cantor, assistant director of the department of economic research, accompanied by Dr. Mark Roberts, economist, department of economic research, both with the American Federation of Labor and Congress of Industrial Organizations, the AFL-CIO.

Gentlemen, we welcome you, and as soon as you get ready, you may proceed with your remarks.

Mr. Grabowski, as you are settled, would you like to lead off, sir?

Mr. GRABOWSKI. Sure.

STATEMENT OF DONALD J. GRABOWSKI, DIRECTOR OF EMPLOYER RELATIONS, ON BEHALF OF LILLIAN ROBERTS, NEW YORK STATE DEPARTMENT OF LABOR

Mr. GRABOWSKI. Mr. Chairman, my name is Donald J. Grabowski, and I am the director of employer relations for the New York State Labor Department.

I appear here today for Lillian Roberts, the commissioner of labor in New York State, and the head of the New York State agency which administers the Targeted Jobs Tax Credit.

We deeply appreciate the opportunity to tell you of New York's experiences with TJTC.

You have, I believe, copies of our prepared statement which provides some statistics and details of our successes, of which we are rather proud. New York has led the Nation in using TJTC to help the disadvantaged get jobs, and we are here to tell you today, Mr. Chairman, that TJTC is a program that really works. It is simple, understandable, and requires a minimum of paperwork.

It offers employers a worthwhile incentive to seriously consider hiring target group members, and in fact it helps disadvantaged youth and other target group members get jobs on private payrolls.

Last year in New York, we issued more than 31,000 TJTC certifications, over 70 percent of which were for economically disadvantaged youth. Congressman Boehlert referred to some of our production figures earlier.

Since the inception of TJTC, more than 84,000 target group members have been certified as being employed on private payrolls as a result of the TJTC program. So far this year, we are approximately 68 percent ahead of our pace last year in issuing certifications, and the paperwork is threatening to overwhelm us at this point.

The program is really beginning to come on stream. It is still about 70 percent economically disadvantaged youth, and as Congressman Boehlert mentioned, we have over 20,000 New York State firms that are already participating in this. Our data over the history of the program shows that these firms come from a wide range of industries—manufacturing, retailing, wholesaling, service industries, some construction—so there is a breadth to the program that might surprise some casual observers.

Second, our data show that about 80 percent of the employers who are participating are in fact small firms, and by that I mean firms that employ less than 100 workers.

The promotional task with the Targeted Jobs Tax Credit has not been an easy one because, as many previous witnesses have mentioned, there are a number of difficulties with getting the message across. One is sheer volume.

In New York State alone, we have over 400,000 employing entities—employers—so the reaching of that market is a substantial problem.

But just very quickly identifying those activities to date, and particularly for last year, Mr. Chairman, we are here to urge the committee and the Congress to adopt an extension of TJTC as recommended by Congressman Rangel and by others in the Congress.

We are also urging your committee to make some adjustments in the statutory language which will permit an even greater utilization of the act's objectives. They are—and, as I mentioned, the first relates directly to the paper problem.

The funding formula which reimburses the job service for Targeted Jobs Tax Credit administration is inadequate, and it needs to be adjusted, as we have pointed out in our statement, to recognize that a truly effective TJTC program provides vouchers to a large number of TJTC-eligible individuals who can, with the assistance of the job service or other cooperating agencies, or on their own, use that TJTC voucher as a marketing tool to encourage employers to seriously consider them.

The funding formula makes no allowance for the vouchering activity that is necessary to create a large pool of targeted job applicants who can be considered by employers, which is essential to the program.

We also point out in our formal statement that the summer youth employment programs, along what has come to be called the Standard Oil model, those kinds of programs which include off-site training arranged by the employer to provide the individual hired with training and experience directly related to the employer's business interests, should be specifically permitted in TJTC.

A private revenue ruling last year related to the Standard Oil program. Our department has submitted a request for a formal ruling on a more generalized basis. We are hoping that such a ruling will be forthcoming out of IRS. We also hope that the Congress will consider clarifying this somewhat cloudy area because, as previous witnesses mentioned, the summer youth TJTC program last year was not a very big success in New York or elsewhere.

One of our problems was the program got a very late start. The guidance regulations were very late. As a result, we had very little time to market the program to the business community.

This year we are in much better shape, and we expect to have much better results in the TJTC area.

And finally, one further operational problem which our formal statement recommends for your consideration is the whole issue of timeliness of certifications. As we point out in our formal statement, we are still denying about 1,000 certification requests per month from employers who have hired TJTC-eligible individuals but whose request for a TJTC certification is postmarked outside of that "on or before the date" the individual was hired.

At least 20 percent of those denials are due to postmarks which are affixed within 1 day of the cutoff point. Our preliminary investigations in this show that much of it is due to the vagaries of the postal system, the affixing of date stamps, the operation of postage meters, the collection of mail in certain locations. Certainly we are dealing here with firms that have met the full intent of the law, seriously considered and hired individuals who were targeted jobs tax credit group members, and then are denied the tax credit, and there is no way to overcome that denial.

So again, Mr. Chairman, we urge your favorable consideration of the extension of TJTC, and we hope that you would be willing to consider the suggestions that we have made as far as further amendments. I will be happy to answer any questions you may have.

[The prepared statement follows:]

STATEMENT OF LILLIAN ROBERTS, COMMISSIONER, NEW YORK STATE DEPARTMENT OF LABOR

Introduction

The TJTC program has been very effective in New York State.

This presentation addresses: (1) Extension of TJTC; (2) the need to revise the basis upon which states are funded for program administration; (3) recommendation to enhance summer youth employment provisions by incorporating outside training services obtained by the employer; and (4) timeliness requirements for certifications.

Extension of TJTC

New York State Employers have led the nation in the utilization of TJTC to provide jobs for disadvantaged workers.

During the Fiscal year 1983, 113,000 individuals were determined to meet the eligibility criteria of one of the targeted groups.

Disadvantaged youth	46,453
Disadvantaged Viet vets	6,415
Disadvantaged ex-felons	3,188
Handicapped	4,762
Co-op educ. students	124
Supplemental security benefits	238
Summer youth	5,907
Public assistance recipients	46,096

Employers hired 30,181 of these eligible target group members.

Since the inception of the program through September 30, 1983, the TJTC program has resulted in 83,711 jobs for disadvantaged New Yorkers.

TJTC can be an effective tool in economic development in that tax credits have been applied for job creation. One such example is the Golub Corporation, a regional supermarket chain with 58 stores averaging 175 employees, which has participated in TJTC since 1980. During FY '83, Golub opened 6 new stores in addition to renovating 23 existing locations.

The Corporation's TJTC coordinator estimates that the largest of these new stores, considered the flagship of the operation employing over 200 people, was made possible by a company investment almost comparable to their total and anticipated TJTC credits.

Recommendation

New York State supports the extension of TJTC as reflected in S. 2185, but recommends that the extension be for five years as originally proposed by Senator Heinz and legislation proposed by Congressman Rangel.

Provision for program administration

Administrative funding levels for TJTC are grossly inadequate. Current funding is based upon a formula which factors civilian labor force weighted at 35% and the previous fiscal year's certifications weighted at 65%, at a 90% hold harmless with no stop-gain.

This funding formula, based on the number of certificates, factors out all Job Service costs for the preparation of vouchers to determine eligibility on the local office level, which by volume consumes the greatest number of man-hours accrued against TJTC Activity. The costs for vouchering on the local office level are accrued against Job Service allocations. Although the number of targeted group applicants determined eligible has no effect on a state's funding allocation, the availability of a large pool of eligible job seekers directly impacts on potential certifications.

The reduction in Wagner-Peyser funding compounds the staffing problems to the point that it is no longer possible to assign local office staff on a temporary basis to handle peaks in local office program activity.

New York has developed and implemented several features which have benefited both employers and job seekers and are directly responsible for the success of the program. An employer response postcard system has expanded the marketing effectiveness of the program, as well as our capability to voucher applicants.

The Marketing Strategy is not solely responsible for New York's high performance level. We have in place an administrative system which substantially reduces paper work for employers as compared to other states.

In order to make it easy for employers to participate, however, our own staff must be involved, both centrally and in the field, to a far greater degree than is reflected in the funding formula.

Originally, one voucher was issued to a Job Service applicant, either for referral purposes or individual job search. The voucher was left with the first employer contacted. When the vouchers were left with employers and no hire resulted, the applicant would either return for another voucher or seek employment without the aid of the voucher.

With our postcard system, an applicant is given several cards to present to perspective employers during referral. This card—The TJTC Certification Request for Federal Tax Credit—informs the employer that the tax credit is available to the company and stipulates that the card must be postmarked on or before the applicant starts work in order to establish a valid certification request. When the local office receives a card in return mail indicating that the applicant has been hired, a voucher is processed and the certification issued.

Also inherent in the New York State approach is the issuance of vouchers to individuals who meet eligibility requirements and who seek employment on their own initiative. This enhances the ability of the disadvantaged applicant to compete for available jobs. As a result, the number of vouchers issued exceeds the number of certifications. However, this approach is considered an essential element of the program. The funding formula does not make provision for the cost of the voucher process.

The New York State Job Service marketing strategy has produced an increase during FY 83 in certifications in excess of 68%; from 18,000 in FY 82 to 30,181 in FY 83. Certifications for FY 84 are already increased by 112% compared to this period in 1983.

New York State is currently expending approximately four times its administrative allocation of $1.4 million to operate TJTC.

Recommendation

The funding formula should be revised to give weight to the number of vouchers issued.

Allocations to the state should provide more adequately for the cost of operating an effective program.

Summer youth employment provisions

Offsite Employee Training: Standard Oil of Indiana was able in 1983 to leverage a net payroll cost of $21,000 into jobs for 131 economically disadvantaged youth with a gross summer payroll of $129,000; they were able to provide jobs for 25 of these youngster in their corporate headquarters; they were only able to employ the remaining 106 because of the Private Ruling (No. 8338042) they received from the Internal Revenue Service; the ruling authorized the Standard Oil company to claim the tax credit for salaries paid to eligible youth that were placed in offsite training or job assignments by the company; the assignments were to small independent businesses and not-for-profit community organizations where the youth served in activities that were integral to the business of Standard Oil; Standard Oil was in every sense of the word, the employer, while the small business or community organization provided the direct supervision and training on behalf of the company.

Recommendations

We anticipate a general revenue ruling from the IRS permitting wider application of this concept. Several principles should be identified in the reauthorized legislation:

(1) The term "trade or business" should be defined to encompass the training of employees in skills that are integral within the employer's trade or business, including outside training services obtained by the employer to improve and/or maintain job skills associated with the employer's trade or business.

(2) Remuneration that is deductible by an employer under Section 162 of the Code should be identified as remuneration paid for services performed in a trade or business of the employer for purposes of Section 51(f) of the statute.

(3) Wage paid to an employee who is placed by the employer under the direct supervision of a training facility or independent business in order to improve employment skills associated with the employer's trade or business should be identified as deductible by the employer under Section 162 of the Code as an ordinary and necessary expense, and entitle the employer to claim the targeted jobs tax credit on said remuneration. Including these principles in the statute will clarify on allowable alternative where on-site employment is not feasible due to the demands of the work place; statutory language covering this option is needed to dispel any doubt that this option satisfies the intent of Congress to address the staggering unemployment of our nation's youth by subsidizing youth employment under the direction of private enterprises.

(4) We recommend that the legislation explicitly permit an employer to claim the credit on wages paid if the balance of remuneration is paid for: Participation in vocational exploration activities; pre-employment training activities, or services rendered to community based organizations on behalf of the employer.

Timeliness requirements for certification

The 1981 amendments eliminated the issuance of retroactive certifications by including the requirement that the employer must receive or request the certification in writing from the Job Service before the day the individual begins work. This requirement was liberalized by one day in the 1982 amendments which now require the employer to make written request on or before the day the individual begins work.

By IRS regulation, the Labor Department is required to judge the timeliness of these written requests by the date of receipt or the date of postmark. The insertion of the Postal Service into this process further impedes an employer's ability to meet this timeliness requirement in many cases.

NYSDOL is currently rejecting approximately 1,000 certification requests each month from employers who fail to meet this requirement even though they have complied with the intent of the law and hired an otherwise TJTC eligible individual. We estimate as many as 20% of these rejections are due to only one day delay in posting. This represents a loss of millions of dollars of potential tax credits to New York State employers each month.

Recommendation

We recommend that Congress consider relaxing the restrictive timeliness requirement by another one to three days to allow for variations in Postal Service handling of mail.

Summary

New York State recommends: (1) Extension of TJTC for 5 years; (2) more adequate funding for program administration; (3) provisions authorizing outside employment for the summer youth program; and (4) extending the deadline for certification request from one to three days.

Chairman STARK. We appreciate your testimony, Mr. Grabowski. I think we will hear from the AFL-CIO witnesses to complete the panel and then members can inquire.

Mr. Arnold Cantor, who is assistant director of the department of economic research, accompanied by Dr. Mark Roberts from the American Federation of Labor and CIO is our next witness.

Without objection, your entire statement will appear in the record. You may expand on it, summarize, proceed in any manner you wish.

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY MARK ROBERTS, ECONOMIST

Mr. CANTOR. I will summarize and be as brief as possible.

I would like to add for the record that the main reason I prevailed upon my colleague to come and accompany me is that Dr. Roberts has specialized and done a lot of work in the area of employment and training of youth, and we, quite personally and institutionally, feel this is much more an employment and a job and a training issue than it is a tax issue.

The AFL-CIO recommends that the targeted jobs tax credit program be allowed to expire as scheduled on December 31, 1984.

There is no evidence that the program has generated any new jobs or been of particular benefit to the target groups. Rather, evidence shows that employers receive windfall tax benefits for doing what they would have done anyway, and there is considerable potential for job substitution and job displacement.

Moreover, as the target group expands, the competition for available jobs among those in the group heightens.

One of the main problems in the past has been that employers were able to claim credits for persons who were already on the payrolls or who were hired without regard to the availability of the credit.

In 1981 legislation sought to curb these effects by requiring that all eligible job applicants must have their job service vouchers in hand before they begin work or, as one critic put it, and I quote, "to hang a medallion around an applicants neck that says, 'I am one of the seven targeted groups.' "

Another problem is also involved: the hiring of a "targeted group" member can mean, and is most likely to mean, that someone else may be unfairly denied a job because he or she is not subsidized.

A Labor Department release about the program in the New Orleans hotel industry quoted a Hyatt Regency staffer as stating, obviously—the "obviously" is mine; I am sorry—and I quote, "Given two qualified applicants, the Hyatt will hire a TJTC-eligible person first in those service-oriented positions open."

The possible impacts of discriminatory hiring of this kind—where it takes place—are highlighted by the surfacing of proposals in the Congress to add more "target" groups to the program, such as the aged, individuals living in high unemployment areas, persons who have exhausted unemployment insurance and "fairness" might require an ever longer list, and I personally feel the possibilities are endless.

The main impacts of TJTC thus involve either windfall tax benefits to employers for workers they would have hired anyway or the hiring of subsidized individuals in preference to those without subsidies. There is also the possibility of actual displacement of current employees in favor of those who carry tax credits.

We have learned, for example, of a situation where an auto parts plant in Michigan which had laid off a major portion of its work force recently began recalling its workers as production resumed. Some of the less senior workers, however, had been out too long to retain their recall rights under the union contract.

When rehiring began, they were almost all replaced with individuals who carried tax credits under the TJTC program. As can well be imagined, this has caused a great deal of grief and outrage for the ex-workers who were thus cast aside.

Again, we have seen no evidence that employers actually expand their payrolls to accommodate additional workers from targeted groups. Rather, staffing levels are kept consistent with the basic requirements of the business.

The one program that sought to condition tax credits on increased employment has been generally acknowledged as a failure, and that was the new jobs tax credit which was in effect in 1977 and 1978.

In addition, our own analysis on this point involves the most recent addition to the target list, and that is the summer jobs for economically disadvantaged youth ages 16 or 17 on the hiring date. That credit is a real supersubsidy of 85 percent of up to $3,000 of wages paid between May 1 and September 15. It first went into effect for the summer of 1983.

We compared labor force and employment figures for the 16- and 17-year-old youths during those months, and we came up with, among the conclusions, that there was some additional summer employment, and it was virtually all from jobs in government and in private household service, where they are not entitled to receive the credit.

Unemployment rates for this group, as compared to a year earlier, began falling in July, generally in line with the overall movement of rates for the labor force as a whole. Black youths, ages 16 to 17, did not share in the general improvement in unemployment rates that began in July. Their rates worsened.

In light of the deficits, finally, we really feel that TJTC is a program that can very well be dropped.

As a final note, plant closings, major layoffs, worker dislocations, and shifting skill requirements vastly increase the need for an effective national training effort to supplement job creation programs. We feel that is where the payoff is. We also feel the lesson learned from MDTA and CETA is a positive one. Anyone who studies the record, who looks objectively at the real achievements, knows that CETA got a bum rap, that the real achievements were too much obscured by a relatively few, well publicized cases of fraud and abuse, while the success stories never got the attention they deserved.

Finally, Mr. Chairman, the AFL-CIO yields to no one in its commitment to full employment for all who are able and willing to work and to the proper training of workers with special needs. We are convinced that the targeted jobs tax credit is a wrong route, and it should be promptly discontinued.

Thank you.

[The prepared statement follows:]

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO recommends that the Targeted Job Tax Credit program (TJTC) be allowed to expire as scheduled on December 31, 1984. There is no evidence that the program has generated any new jobs or been of particular benefit to the target groups. Rather, evidence shows that employers received windfall tax benefits for doing what they would have done anyway, and there is considerable potential for job substitution and displacement. Moreover, as the "target" group expands, the competition for available jobs among those in the group heightens.

In its present form, the program basically dates from 1978 when tax credits for business hiring workers in seven "target" groups were written into law. In general, these groups included certain categories of assistance recipients, handicapped persons, ex-convicts, Vietnam veterans, and economically disadvantaged youth. The credit is equal to 50 percent of the first $6,000 of wages paid for the year of employment and 25 percent in the second year.

In 1981, involuntarily terminated CETA employees were added; and in 1982, credits were established for businesses hiring economically disadvantaged youth ages 16 and 17 for summer jobs. The credit for the summer job group is 85 percent of up to $3,000 of wages paid in any 90-day period between May 1 and September 15.

Thus, the basic approach has been in place for about six years. The experience with it has been far from satisfactory, and the program has been subject to considerable abuse.

One of the main problems in the past has been that employers were able to claim credits for persons who were already on the payrolls or who were hired without regard to the availability of a tax credit one study produced a finding that on average about 80 percent of certifications were retroactive—employers hired first and sought tax certifications later for anyone of their payrolls who happened to fit into one of the targeted slots. Such a result is obviously of no benefit to the workers involved and simply produces a tax windfall for the employer at the expense of the general public.

The 1981 legislation sought to curb these effects by requiring that all eligible job applicants must have their job service vouchers in hand before they begin work, or as one critic put it "to hang a medallion around an applicant's neck that says 'I am one of seven targeted groups.' " [1]

The prospects of continued use of the program under the reformed provisions were thought to be considerably diminished by some experts. A New York City consulting firm that had charged fees for interviewing company employees to determine TJTC eligibility and get employees certified retroactively, called it "a delicious Catch 22." His firm had certified nearly 8,000 individuals for 500 clients since 1978. Under the new law, he predicted that a firm that "usually interviews today and hires tomorrow will either have to change its hiring practices in order to wait for the local job service agency to interview and certify eligible employees, or not to participate in the program at all." [2]

We do not know whether the situation has actually worked out this way. The Labor Department has aggressively promoted the program, at least in some areas of the country. Last August, the Department's information service issued a release concerning the operation of the program in New Orleans in the summer of 1983 in behalf of the hotel industry. It recounted how the local Employment Security Service area manager was sending a team of staffers each week to work with the major hotel personnel offices. "Employee applications to the hotel and TJTC certifiacations are completed at one time in one place, saving time for both applicant and employer." [3]

This kind of operation is probably not available to all employers as it obviously involves additional money, staff, and effort on the part of the Employment Service. Many of these employees would have been hired in any event, if the hotels actually needed extra workers for their summer tourist trade.

Another problem is also involved: the hiring of a "targeted group" member can mean that someone else may be unfairly denied a job, because he or she is not subsidized. The same Labor Department release about TJTC in the New Orleans hotel industry quoted a Hyatt Regency staffer as stating that "given two qualified applicants, the Hyatt will hire a TJTC-eligible person first in those service-oriented positions open."

The possible impacts of discriminatory hiring of this kind—where it takes place—are highlighted by the surfacing of proposals in the Congress to add more "target" groups to the program, such as the aged, individuals living in areas of high unemployment, and persons who have exhausted unemployment insurance benefits. "Fairness" might require an ever-longer list.

Writing in 1982, Robert Tannenwald of the Federal Reserve Bank of Boston concluded that "to the extent they are effective, targeted subsidies enhance the employment of some groups only at the expense of others. An expansion of the role of targeted subsidies would encourage such displacement at a time when unemployment is at its highest rate since the Great Depression." [4]

The main impacts of TJTC thus involve either windfall tax benefits to employers for workers they would have hired anyway, or the hiring of subsidized individuals in preference to those without subsidies. There is also a possibility of actual displacement of current employees in favor of those who carry tax credits.

We have learned of a situation where an auto parts plant in Michigan, which had laid off a major portion of its work force, recently began recalling its workers as production resumed. Some of the less senior workers, however, had been out too long to retain their recall rights under the union contract. When rehiring began, they were almost all replaced with individuals who carried tax credits under the TJTC program. As can well be imagined, this has caused a great deal of grief and outrage for the ex-workers who were thus cast aside.

We have seen no evidence that employers expand their payrolls to accommodate additional workers from targeted groups. Rather, staffing levels are kept consistent with the basic requirements of the business. The one program that sought to condition tax credits on increased employment has been generally acknowledged as a failure (the "New Jobs" Tax Credit of 1977 and 1978).

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[1] Frank Swain, Small Business Administration, as quoted in BNA Daily Labor Report, Sept. 20, 1982.

Roy Johnson, President of PCS reports, as quoted in BNA Daily Executive Report, Aug. 19, 1981.

[3] U.S. Department of Labor, "A News Summary for Hispanos," week of Aug. 29, 1983.

[4] "Are Wage and Training Subsidies Cost-Effective?—Some Evidence from the New Jobs Tax Credit," New England Economic Review, Sept.-Oct. 1982.

An analysis of our own on this point (see pages 7, 8, and 9) involves the most recent addition to the "target" list—summer jobs for economically disadvantaged youth ages 16 or 17 on the hiring date. The credit is a "supersubsidy" of 85 percent of up to $3,000 of wages paid between May 1 and September 15. It first went into effect for the summer of 1983.

By comparing labor force and employment figures for 16 and 17 year olds for the months of May-September 1983 with the same months of 1982, we come to the following conclusions:

1. Additional summer employment for 16 and 17 year olds between 1982 and 1983 came not from the private wage and salary sector, but from additional jobs in government and in private household service.
2. Unemployment rates for this group, as compared to a year earlier, began falling only in July, in line with the overall movement of rates for the labor force as a whole.
3. Black youth, ages 16 and 17, did not share in the general improvement in unemployment rates that began in July. Their rates worsened as compared with 1982.

We are very much troubled by the prospect of the continuance of a useless set of employer tax credits in behalf of targeted employee groups. The list can only grow longer with time as pressures, develop, possibly involving even larger credits and more waste of the taxpayers' money. The present program costs, in terms of lost revenue to the Treasury, are already estimated at over $1 billion a year. In light of the enormous deficits now being incurred in the federal budget, TJTC is a program which can very appropriately be dropped.

Plant closings, major layoffs, worker dislocations, and shifting skill requirements vastly increase the need for an effective national training effort to supplement job-creation programs.

Trade unions have a vital, essential role to play in making job training programs work effectively—and I will talk about some of our experiences and our concerns on job training. The AFL-CIO has a long record of support for human resource development and productivity improvement through better education, training, retraining, upgrading, upward mobility opportunities, and anti-discrimination protections for all workers, both employed and unemployed.

There is certainly a positive payoff from training and retraining and job counseling and job placement services.

This lesson we learned from MDTA and CETA. Anyone who studies the record, anyone who looks objectively at the real achievements knows that CETA got a "bum rap"—that the real achievements were too much obscured by a relatively few well-publicized cases of fraud and abuse while the "success stories" never got the attention they deserved.

Many of those success stories were union-related training programs and union run programs like the successful Job Corps projects and the successful union outreach programs.

The dramatic change in the nation's employment and training system resulting from enactment of the Job Training Partnership Act has wide-ranging implications for organized labor. The greatly diminished federal role under JTPA is of grave concern to labor. However, the state-run system established by the new law offers opportunities for labor involvement in planning and providing programs. JTPA also embodies certain labor standards and consultation rights which labor must be vigilant to protect. The AFL-CIO Human Resources Development Institute, with its broad experience and technical expertise, is working to help organized labor make the most of these opportunities and rights.

HRDI is continuing its work with labor organizations at the national, state, and local levels to develop employment and training services for dislocated, disadvantaged, unemployed, and underemployed workers.

As a final commentary on the problems of employment, I am submitting for the record a copy of the most recent statement of the AFL-CIO Executive Council on "The National Economy" issued on February 20. The AFL-CIO yields to no one in its commitment to full employment for all who are able and willing to work and to the proper training of workers with special needs. But we are convinced that the Targeted Jobs Tax Credit program is the wrong route. It should be promptly discontinued.

APPENDIX.—EMPLOYMENT OF PERSON AGES 16 and 17, Summer 1982 and 1983

Table 1 shows basic population and labor force figures for both the total population and for youth ages 16 and 17 for each month May-September 1983 with comparisons for the same months of 1982.

In the 16 and 17 year old group, the population was lower in each month of summer 1983 than it had been a year earlier. The population drop produced a smaller labor force in 1983 with generally lower levels of both employment and unemployment, only partly offset by increased labor force participation rates in June, July, and August. (In May and September participation rates were sharply lower than in 1982 and aggravated the labor force decline in those months.)

Unemployment rates for all youths ages 16 and 17 were higher in May and June of 1983 than in the same months a year earlier. Beginning with July, however, rates dropped below year-earlier levels. As shown in Table 1, this trend was the same as for the labor force as a whole.

The pattern for young blacks in the ages 16 and 17 group was distinctly different. Unemployment rates fell below 1982 rates only in the single month of June.

Table 2 shows employment changes by type of industry between summer 1982 and summer 1983 for 16 and 17 year old workers.

As noted for Table 1, employment levels generally dropped, reflecting population drops. However, Table 2 shows that the declines for private wage and salary employment exceeded the overall decline for each month of the period, especially in June, July and August. The offsets to the employment drops in the private payroll sector came principally from increases in jobs in government service and in private household service.

TABLE 1.—CIVILIAN NONINSTITUTIONAL POPULATION AND LABOR FORCE, SUMMER 1982 AND 1983

[Numbers in thousands, not seasonally adjusted]

	Population		Labor Force		Employed		Unemployed		Percent of population in labor force		Percent of labor force unemployed	
	1983	Change from 1982	1983	Change from 1982	1983	Change from 1982	1983	Change from 1982	1983	1982	1983	1982
Total population:												
May	173,953	+1,927	110,308	+394	99,543	−414	10,765	+808	63.4	63.9	9.8	9.1
June	174,125	+1,935	113,383	+1,814	101,813	+1,130	11,570	+684	65.1	64.8	10.2	9.8
July	174,306	+1,942	113,980	+1,454	103,273	+1,783	10,707	−329	65.4	65.3	9.4	9.8
August	174,440	+1,929	113,578	+1,691	103,167	+1,990	10,411	−299	65.1	64.9	9.2	9.6
September	174,602	+1,912	112,197	+1,651	102,366	+2,515	7,830	−865	64.3	64.0	8.8	9.7
Age 16 and 17:												
May	7,415	−346	2,869	−409	2,125	−339	744	−70	38.7	42.2	25.9	24.8
June	7,384	−345	3,885	−90	2,736	−138	1,148	+48	52.6	51.4	29.6	27.7
July	7,355	−342	4,240	−171	3,270	−110	970	−61	57.6	57.3	22.9	23.3
August	3,338	−327	3,843	−144	3,059	−81	784	−64	52.4	52.0	20.4	21.3
September	7,322	−313	2,828	−241	2,170	−105	657	−137	38.6	40.2	23.2	25.9
Age 16 and 17 (black only):												
May	1,098	−25	238	−3	111	−2	127	−1	21.8	21.5	53.1	53.1
June	1,094	−25	377	+54	154	+41	223	+13	34.5	28.9	59.2	65.0
July	1,089	−26	476	+7	268	+4	208	+3	43.7	42.1	43.7	43.7
August	1,086	−25	358	−28	214	−26	144	−2	33.0	34.7	40.2	37.8
September	1,082	−25	201	−52	83	−44	188	−8	18.6	22.9	58.7	49.8

Source: U.S. Department of Labor, Employment and Earnings (monthly issues).

TABLE 2.—EMPLOYMENT OF YOUTH AGES 16 AND 17 BY TYPE OF INDUSTRY, SUMMER 1982 AND 1983

[Numbers in thousands, not seasonally adjusted]

	Total	Private wage and salary	Other employment				
			Total	Private household	Government	Self-employed	Unpaid family
1983:							
May	2,125	1,706	419	209	83	76	51
June	2,736	2,102	634	298	186	83	67
July	3,270	2,434	837	319	367	80	71
August	3,059	2,351	707	288	264	77	78
September	2,170	1,803	366	200	71	59	36
Change from 1982:							
May	−339	−342	+4	+19	−14	+13	−14
June	−138	−245	+106	+50	+72	+16	−32
July	−110	−176	+67	+15	+94	−10	−32
August	−81	−156	+76	+39	−59	−13	−9
September	−105	−122	+17	+9	+13	−5	....

Source: U.S. Department of Labor, Employment and Earnings (monthly issues).

STATEMENT OF THE AFL–CIO EXECUTIVE COUNCIL ON THE NATIONAL ECONOMY

The unrealistic budget and economic policies of the Reagan Administration threaten the soundness of our economy for years to come. Continuing high federal deficits are pushing up already high real interest rates and may soon tip the economy into yet another Reagan recession.

The deficit must be reduced by stronger economic growth, increased federal revenues and lower military expenditures.

Fundamental issues for working men and women—jobs, fairness, and a future with oppotunities for all—are pushed aside by a President who places re-election above the urgent need to take action on these issues.

President Reagan's supply-side trickle-down experiment has failed. It is time to face reality by restoring adequate tax revenues, returning the corporate income tax as a major contributor of these revenues and closing loopholes that allow the wealthy to escape their fair share of taxes. The rapid build-up in military expenditures must be curbed and the destruction of domestic programs must be stopped.

Giant budget deficits raise interest rates, which in turn curtail public and private job creating investments and price homes out of the reach of most workers. High interest rates contribute to the overvaluation of the dollar, which prices U.S. goods out of foreign markets and encourages a flood of imports that undermines domestic employment and production.

A year after the bottom of the Reagan recession, 9 million Americans are still officially unemployed, 1.5 million "discouraged" workers are no longer even counted among the jobless, and almost 6 million workers who want full-time jobs are working only part-time. In January, there were one million more unemployed than when Reagan took office, and two million more than four years ago. The buying power of the average worker's paycheck is lower than in 1979. More Americans are living in poverty today than at any time since poverty statistics were first compiled in the mid-1960s.

Jobs, fairness, and opportunities for the future remain key issues for America's workers and for the nation in 1984.

JOBS

Healthy economic growth based on sound monetary, fiscal and industrial revitalization policies are necessary elements of full employment policies. To achieve progress toward full employment, rebuild the economy and help workers and their communities, we support the following measures now pending before Congress: (1) The industrial policy bill (H.R. 4360), which would set up a high-level Council on Industrial Competitiveness and a Bank for Industrial Competitiveness to make loans and loan guarantees for modernizing and revitalizing American industry; (2) the House-passed community service jobs bill (H.R. 1036 & S. 1812), which would provide public service jobs for workers who cannot find work in the private sector;

(3) the public works bill (H.R. 2544), that would help reconstruct the nation's basic infrastructure, including water and sewer facilities, highways and port facilities, and other public works which stimulate private, job-creating investment and economic activity; (4) the plant closing bill (H.R. 2847), which would provide some protection for workers and local communities when industries shut down or more; and (5) the House-passed domestic auto content bill (H.R. 1234 & S. 707), to assure a strong U.S. auto industry and additional trade legislation to provide relief for other impacted industries.

FAIRNESS

The Reagan Administration has undermined many statutory protections through Administrative actions and has crippled enforcement of labor standards, civil rights, women's rights, occupational safety and health, environmental safeguards, consumer protections and long-standing anti-trust restraints on corporate power. To restore some element of fairness, major changes must be made. Only the election of a new President will restore proper administration of these basic statutory rights and safeguards. But Congress also has a responsibility for oversight of Administration actions and for enacting additional worker and consumer protections.

The tax giveaways to the wealthy and corporations enacted in 1981 must be reversed. A progressive income tax based on ability to pay must remain a fundamental principle of the tax system. New proposals to heap more of the burden on workers through such regressive devices as value-added taxes, consumption taxes, and flat-rate income taxes must be rejected. Congress should adjust the tax schedule to cap the last installment of the Reagan tax cut at $700, which would recapture $6.9 billion in 1985 revenues, and repeal the costly indexation provisions of the 1981 Act, which would recover another $6.3 billion. Corporations, whose share of the tax burden dropped from 20 percent in 1960 to 10 percent in 1983, must bear their fair share. Tax subsidies for the overseas operation of U.S. multinational corporations must be curbed through elimination of foreign tax credits and deferrals.

The only major revenue proposal of the Reagan Administration is to tax the health insurance of workers and their families. The AFL–CIO will strongly oppose this proposal.

Congress has before it a number of bills that we believe would enhance the fair treatment of the nation's citizens. Therefore we support: (1) The House-passed health care protection for the underemployed (H.R. 3521). This bill would create a modest program of health care for the unemployed and their families; (2) cost-containment legislation to fight inflation in the health care industry while protecting wages, benefits, and other contractual rights of health care workers and including special protections for public hospitals. However, we will oppose further cutbacks in essential Medicare and Medicaid health care services; (3) energy price regulation (H.R. 2154 and S. 996), the "Natural Gas Consumer Relief Act" to protect consumers from the monopoly power of natural gas producers, as well as the House-passed restrictions on the export of Alaska Oil (H.R. 3231) to assure that Alaskan oil is used for American consumers; (4) legislation along the lines of H.R. 100, to end discrimination in pensions and insurance. While that discrimination rests first and foremost on women workers, it affects the entire family through diminished benefits or increased premiums; (5) consumer protections on telephone rates and service with adequate protection for telephone workers and their pension rights; (6) worker and union protections in bankruptcy cases to prevent corporations from trying to escape their obligations through phony bankruptcy proceedings. Consumer and worker protections must be provided in any bankruptcy reform legislation, such as H.R. 1147 and S. 333; and (7) legislation (H.R. 1743 and S. 1079) that would prohibit companies which violate the National Labor Relations Act from receiving federal contracts for up to three years.

THE FUTURE

In addition to jobs and fairness, America's working people want a secure future, a decent retirement, hope for education and opportunity for their children. To enhance the future of the nation's citizens, new strong national leadership is required.

Congress now has before it legislation which would make a start toward these goals. We support: (1) Adequate funding for the Elementary and Secondary Education Act, for vocational education, for Adult Basic Education, for student loans and grants, and for post-secondary and higher-education programs. We oppose President Reagan's schemes for educational vouchers and tuition tax credits as destructive of public education and oppose block grants as inefficient and ineffective methods of funding proven programs; (2) more funds for training and retraining of adult workers, particularly those affected by industrial dislocation; and (3) adequate protections for pension rights. The single-employer pension plan termination insurance program must be strengthened to (a) provide strong disincentives to termination of pension plans by requiring solvent employers who terminate pension plans to be responsible for the full amount of accrued benefits of plan participants, and (b) curtail the ability of employers to dump unfunded pension liabilities on the Pension Benefit Guaranty Corporation. We will oppose attempts to modify the Multi-Employer Pension Plan Amendments of 1980.

The AFL-CIO is convinced that the nation can move toward full employment, restored fairness and build a better tomorrow for ourselves and our children. The program we have outlined will move the country toward these goals and at the same time reduce the federal deficit by stimulating the economy and raising needed revenues.

Congress should start to deal with these issues now, but only with the election of a new Administration can these principles be achieved.

Attachments: Background Paper

Background Paper on the National Economy

The Administration proposes to increase defense outlays in 1985 to $272 billion, an increase of 15 percent.

This Council has called for reducing real defense spending increases to a range of 5 to 7 percent, with some members urging that the increase be held to the lower end of the range or below.

Savings from this lowered defense spending would be $7 to $12 billion in the first year, with substantially greater reductions in future years, assuming an inflation rate of 5 percent.

To pay for real increases in defense spending, we have supported a progressive surtax levied on corporate and individual income taxes, plus an additional tax on income currently sheltered. Such a surtax would raise $12 billion to $17 billion in the first year.

A number of the programs that the AFL-CIO calls for would provide for increased expenditures. But to the extent that people are put back to work under these programs, they would become taxpayers rather than recipients of unemployment compensation or in some cases welfare benefits. Each one-percent reduction of unemployment raises tax revenues by that $25 billion and reduces outlays by $5 billion.

Following are the budget estimates for the detailed programs spelled out in the AFL-CIO recommendations:

The Industrial Policy Act (H.R. 4360) would set up a new process for dealing with industrial economic issues through a new Council on Industrial Competitiveness, whose cost would be small. The Bank for Industrial Competitiveness would have a federal authorization for $8.5 billion in federal stock subscription made available over several years.

The Community Service Jobs Act (H.R. 1036 and S. 1812) calls for an authorization of $3.5 billion to employ people in community service work who cannot find jobs in the private sector.

The Public Works Act (H.R. 2544) would carry an authorization of $3.2 billion to help reconstruct the nation's basic infrastructure, including water and sewer facilities, highways and port facilities, and other public works which stimulate private, job-creating investment and economic activity.

The Plant Closing Act (H.R. 2847) would have little budget impact; it would require employers to provide advance notice and some basic protections for workers and local communities.

The domestic auto content bill (H.R. 1234 and S. 707) would have no measurable budget outlays but would assure continued extensive U.S. auto production.

The Health Care Protection Bill (H.R. 3521) calls for authorization of $1.8 billion a year for each of two years to provide health insurance coverage for the unemployed.

The health care cost containment legislation would save the federal government $1 billion. We oppose the President's call for cuts of $1.1 billion in Medicare and $1.1 billion in Medicaid.

The energy bills, women's pension and insurance protections, consumer and worker protections in telephone, and consumer and worker protections in bankruptcy have little budget impact, but provide substantial worker and consumer safeguards.

We are opposed to the President's call for cuts of $200 million in authorization for elementary, secondary and vocational education and cuts of $900 million in higher education loans and grants.

We are opposed to the President's call for cuts of $600 million in employment and training programs.

There is saving to the government in our proposals for improving the single-employer pension guarantee program.

In addition, the AFL-CIO has proposed a second rollback of the personal and corporate income tax reductions enacted in 1981, and the closing of some earlier corporate tax loopholes, which would add up to an estimated $49 billion in additional tax revenues in fiscal year 1985.

This is just a partial recapture of the $165 billion in revenue loss that occurs in 1985 as a result of the 1981 Tax Act. Congress made a start in 1982 to correct this revenue shortfall problem.

Additional Federal Revenues from AFL-CIO Tax Proposals

[Fiscal year 1985, in billions of dollars]

$700 cap—Third year	6.9
Repeal indexing	6.2
Trim "savings" exclusions	2.7
Phase down capital gains	3.9
Scale back estate and gift exclusion	3.7
Foreign tax:	
DISC	1.4
Deferral	1.0
Foreign tax credit	7.1
Investment tax credit:	
Depreciation basis adjustment	1.3
Reduce 10 percent to 7 percent	7.1
Limit Graduate rates to small corporations	2.0
Oil and gas depletion and expensing of drilling costs	6.0
Total	49.3

Chairman STARK. Thank you.

I guess I should ask you the question I have asked several others: Let's assume that you may be the only witness today speaking in opposition to the extension.

Mr. CANTOR. A fair assumption. [Laughter.]

Chairman STARK. Let's assume, therefore, that we are on the road to spending somewhere between $1.25 billion and $3.5 billion over 5 years. Alternatively, to get at the population that this bill portends to get at, where would you suggest we spend the money, if we were able? Maybe Dr. Marks wants to answer that, or Dr. Roberts.

Mr. CANTOR. On youth training programs; it is that simple. Youth training.

Mr. ROBERTS. Mr. Chairman, there is a proposal in by Congressman Gus Hawkins which would set up a youth training and work experience program very much along the lines of what was in effect set up in the CETA amendments in 1978, which was quite a comprehensive youth employment and training program that was administered at that time by Bob Taggart in the Labor Department.

But I think it was recognized that the CETA program operated quite effectively. The AFL-CIO supported it at that time, and we support——

Chairman STARK. This was a program that began back in the 1960's, actually?

Mr. ROBERTS. No, I was thinking of the more recent programs that were started, I guess, in 1978, and that were in effect in——

Chairman STARK. But some of the training programs did begin back, it seems to me, I don't know what——

Mr. ROBERTS. Yes. There have been youth training programs.

Chairman STARK. Now, what would be wrong—one of the problems that I experienced in the private sector was that while the training programs in many cases were excellent and done in cooperation with community colleges, there weren't any jobs at the end of the program. What would be wrong with coupling a tax credit as an incentive for an employer to be somewhat marginal? I mean, not every employer does exactly the most economic thing, and if you could create some jobs for these people, even for 1 year, then they go not only into the market with, quote, training, but a job a record. In other words, ostensibly, they could go out to find other jobs or higher paying jobs with some work experience under their belts.

Of all of the various training programs we have had, there just does not seem to be a way to get those people out of the chute and into the job market. You've got me almost there, but now, how do you get them to work? I mean, how do we spend money, outside of doing it just entirely in the public sector, how do we spend a couple of billion bucks creating the job? Really, what we are doing here is picking up half the tab or putting such horridly substandard wages, whichever you want to call it—it is half empty or half full.

Now, is there a better way to create some jobs?

Mr. ROBERTS. I think that yes, there is, and the limited evidence that I heard coming forth from the CBO witness indicated that the people who go into these TJTC jobs are not getting training, and I think, on the basis of the employers who participate the most heavily, they are the least likely to be able to provide training in any structured way.

So as far as getting training, that is going to be provided much more effectively through some kind of structured program.

Now, what we see is that the programs like the Jobs Corps, which is one which has had labor support right from the start, has been very effective in putting its trainees into regular jobs. I think the evidence indicates that in other structured job training programs, the structured training provides better background for people to go into regular jobs.

Chairman STARK. You know, you have in the Chair an ally, but my problem is that you are talking about training, and I am talking about the kind of training that just says, Get your butt out of bed at 7 o'clock and get to punch the clock by 8.

Again, I would agree with you that we could spend a couple of billion bucks in vocational education, vocational training, which the present administration is cutting back on—a whole host of things. For a billion bucks, we could increase SSI $25 a month for a lot of people whom this program won't even get close to.

The one problem that this—and I hate tax credits. They are awful, and I suspect that people are stealing. I would like to get more information on what you are suggesting. There may be bounty hunters who go in and—I think that is what you are suggesting in your testimony, that these consultants are getting so many bucks a head for everybody they find they can qualify after the fact. I think they ought to go to jail for that.

But it is going to pass, it looks like, gentlemen. And my question is, If we are going to throw this couple of billion dollars out there somewhere, aren't there some ways that we could tighten it, get the flakes out of the business, and make it do what it seems it is going to do? That is my invitation.

Mr. CANTOR. Partly, to me, that is a "would-you-stop-throwing-bricks-at-your-mother" question, because I feel the same way as you about tax credits, and I really and truly feel this is a good example where you are always punching on a balloon.

So I guess I would say to you that if you can devise a targeted tax credit that has on it a quid pro quo that the company, in return for receipt of this tax credit, actually demonstrably does something that helps workers, trains workers, does a telephone service to get them out of bed in the morning—fine. Quite frankly, this is very anecdotal, but I have spoken to a lot of kids who have gone through working in the fast food chains, and I question some of the kinds of training they have gotten. It is not——

Chairman STARK. I doubt if they need much.

Mr. CANTOR. No; that's not my point.

Chairman STARK. If they are kept alive by fixing their own sandwiches——

Mr. CANTOR. It is training, sir, that my kids could very well do without, and some skills that I would just as soon they wouldn't get. But that is a whole other issue.

Chairman STARK. Yes.

Mr. ROBERTS. You raised the point that employers will exert, might exert some kind of harsh training of reality rather than a training program. I think the fact is that you get a lot of turnover and a lot of dropout on both sides with the private employers and also in the training programs.

But I think a significant difference is that the structured training programs are conscious of the problem that they are dealing with, and they make very deliberate efforts to overcome that and to train the young people.

I think the same is true not only of young people but also the so-called disadvantaged, the welfare workers, people who need to have a kind of work discipline training as well as work skill training.

Chairman STARK. The buzz word is "nontraditional." [Laughter.]

Mr. ROBERTS. So I guess my point is that I think that people who are in need of the work experience or work discipline are more likely to get effective experience where the people are geared to providing that specific discipline and they are going to make an effort, a strong effort, to get the people to learn that work discipline.

Chairman STARK. Mr. Grabowski, the New York State Department of Labor can hardly be accused of being a den of rightwing reactionaries, and if you had—except for California's passing you recently—if we spend $3.5 billion, just by statistics, you are entitled to about $350 million of it over 5 years. I gather your State has done more than most other States.

Is this the most efficient way you can think of to take $70 million, $80 million, $100 million a year and put people to work in New York? Or, if you had that money, would you close some loopholes in it? How would you change it to make it more effective?

Mr. GRABOWSKI. Mr. Chairman, I am not really able today to comment on alternate economic policies. What I can say is, based on our experience in New York in dealing with thousands and thousands of individuals under this program, that we have found it to be an effective tool for getting economically disadvantaged individuals, particularly youth, on private payrolls.

Chairman STARK. Where you don't think you would have done it otherwise?

Mr. GRABOWSKI. That is very true, yes. And part of the reason for that, Mr. Chairman, is that, of course, today, even with some change in the economic conditions, the job market is a very competitive situation. There are many people vying for entry level jobs.

Chairman STARK. Let me ask you this. The Congressional Budget Office said that more than half the kids worked 4 months or less, or half the people. Now, that would lead somebody to think, Aha. Half of it is summer jobs, therefore.

Now, in New York, you find all of the marvelous resorts that open up mostly in the summertime and expand and all the jobs that I suppose are available out on Long Island and the shore and all the lifeguards and all the public pools that open up, or private pools, let's say, country clubs. Do they all get these targeted job credits, all those hotels that hire hundreds of kids to clean rooms and haul baggage and all that?

Mr. GRABOWSKI. There is some participation by the resort industry, but it is not an unusually high level of participation.

Chairman STARK. Now, tell me why the resort industry wouldn't hire those people, anyway, unless they are going to make the guests make their own beds. I mean, why should we give it to them?

Mr. GRABOWSKI. The resort industry in New York is both seasonal and year-round, and it is also an area where summer jobs, if we are talking in the summer jobs area, are also competitive. There are many young people applying for less than an equal number of summer employment opportunities.

Chairman STARK. So somebody is apt to be out of work because the kids are getting the jobs.

Mr. GRABOWSKI. Pardon?

Chairman STARK. So some adult is apt to be out of work because——

Mr. GRABOWSKI. No; not necessarily. There is an adult employment element in the resort industry and also a youth employment element, and a part-time element. It is not an industry that I am prepared to comment on indepth in terms of its employment practice.

Chairman STARK. No; I am just saying, I used to work in a pea cannery, you know, and there are only so many positions on the cannery. You can only hire so many kids in the summer. We used to get 35 cents an hour, and it only ran for a month or whenever the peas were ripe.

There was no way, when they started picking the peas, that they weren't going to have somebody there to can them, or they were in deep trouble. And I would think the same thing applies in the Adirondacks. I mean, to open the hotel or the motel, it takes so many maids or room cleaners per bed, and either they are going to hire those people—unless you are in such a depression, and I don't think you are—or they are not.

Now, what I don't understand is what we get by giving anybody a job credit in just this example, where they have got to have the people, and they are probably going to pay minimum wage, anyway. What does that do for your department?

Mr. **Grabowski**. I guess it is perhaps because we see that same situation from a different perspective. In that same area is a local job service office. Coming into that office are a number of young, medium, middle-aged, older people, all looking for work.

Chairman **Stark**. Correct.

Mr. **Grabowski**. A number of those young people are economically disadvantaged. They are looking for a job opportunity. We are looking to try to match their abilities, limited though they might be, with an employment opportunity, at the same time——

Chairman **Stark**. OK, but isn't it likely, then, if I am running that—you've got two people. You've got a middle-aged person, my age, who has been working in Florida, because this has been their habit for 20 years—head south for the winter, and they wash dishes in Florida. As the Florida employment drops in the summer, we head north for the Adirondacks or New Hampshire or the Poconos or wherever, and as they open up, we come in and try to wash dishes there.

If the kid who lives in Buffalo who is disadvantaged is going to get my job, then I am out of work. I have to go on SSI or I have to get into public assistance someplace. I don't see where we have done any more than take one step forward and one step back. Now, how do we get one step back and two steps forward out of this?

Mr. **Grabowski**. I guess my difficulty and our difficulty in this area is that, as I said, we see it from a different light. We are looking at this job opening, and we are looking at applicants who are seeking work.

Chairman **Stark**. But you've always got more applicants than openings, right?

Mr. **Grabowski**. Not necessarily.

Chairman **Stark**. No?

Mr. **Grabowski**. It depends on a variety of situations, but generally speaking, it is difficult for the target group members to find employment. We find TJTC to be a useful tool in helping them to get employment and get on private payrolls.

Chairman **Stark**. Mr. Duncan?

Mr. **Duncan**. Mr. Grabowski, did you actually create new jobs in New York, or did the jobs move from some other parts of the country?

Mr. **Grabowski**. In our testimony, Mr. Duncan, we cited one example of a firm that has been a rather substantial participant and tells us that their expansion of their newest branch, with over 200 new employment opportunities, is directly related to the TJTC credits that they have been able to earn.

We have had a number of other firms tell us, particularly small firms—I am talking here in the area of 8 to 10 to 12 workers—where an employer would say to us, "This makes a difference between whether I go ahead and put on another person or two."

Now, that is what a number of our field staff who administer the program around the State have reported to us on a central administrative basis.

Mr. DUNCAN. Well, that is the reason I was asking you. This branch you are referring to, did it simply move jobs? If the branch had been built at the home office or the prior location of the company, would they have been hired there? Naturally, you didn't create new jobs for the country, but you created new jobs for New York. Is that correct?

Mr. GRABOWSKI. I don't believe so, sir, because that is a regional firm in the eastern part of New York State. They do have a little bit of activity, I believe, in the neighboring area of Vermont, but the principal expansion has been in New York State.

Mr. DUNCAN. Do you have figures that show or indicate that employers have hired people they wouldn't have otherwise hired if it hadn't been for the TJTC?

Mr. GRABOWSKI. We have had a number of employers tell us that—that this makes the difference between giving serious consideration to some applicants who might not otherwise get serious consideration. I am not exactly sure why that is true in individual cases, but we have had employers tell us that.

Mr. DUNCAN. Have you had employers, sir, that would have gone out of business if it hadn't been for the targeted jobs program?

Mr. GRABOWSKI. Not to my knowledge.

Mr. DUNCAN. Thank you, sir, and thanks to the panel, and thank you, Mr. Chairman.

Chairman STARK. Mr. Guarini?

Mr. GUARINI. Arnold, you spoke on implementation of the bill and its having too many flaws. Is it not only the implementation that you complain about but also the general concept of the bill?

Mr. CANTOR. If you put it that way, yes. I really do.

Mr. GUARINI. If we cured those flaws, would you still be against the bill?

Mr. CANTOR. When it first came out, when it was first discussed as a concept—to us, it is—well, to put it flat out, it is a wage subsidy. It is a public tax subsidy to pay what we would call a substandard and extraordinarily low wage, and I don't think it is a good principle. I really don't.

Mr. GUARINI. Then the basic question becomes, with our disabled veterans, our handicapped, our AFDC recipients, our welfare recipients, what kind of a national policy could we have or should we have?

Now, I know you talked about training, but training is not putting people to work. Is there a national policy that you can suggest, that the AFL–CIO could suggest, that we should have? Should labor unions themselves take part of this responsibility; should private corporations take some of this responsibility, as well as government?

Mr. CANTOR. Yes to all of the above, sir. I think the issue here that I am trying to get at is, this device, at best, even if there are some illustrative examples where a person says they wouldn't have gotten a job otherwise, at best it is marginal; at best it is costly; and at best it is a tradeoff against other kinds of directly funded programs.

The labor movement would be delighted and has participated in all kinds of outreach programs, intraining programs, in direct kinds of programs, and then I think, really, above and beyond all of what we are talking about is the need to have an economy where everyone who is ready, willing, and able to work can get a job.

When you are in a situation where there just aren't enough jobs to go around and you come to a program like this all you are doing is upping the competition among groups and between different handicapped people, it is just a kind of—I don't like it.

Mr. GUARINI. Well, of course, the thing is, a job of even any sort gives a person a sense of dignity, and, of course, that is important to them. We know the social costs are manifold when you talk about the young people that could get involved with crime, the problems of narcotics abuse, and broken families, and there is a social cost attached to all these things.

Now, tax credits may not be the panacea, but what I would like to ask from you as a representative of the AFL-CIO, which is a very important and respected institution in our society, is what can you suggest from a positive viewpoint as to how we could approach the problem? I mean, we can't sweep it under the rug, Arnold. We have got to really face this, and this is causing a tremendous displacement and frustration within our own society.

Mr. CANTOR. Well, we have one program which I think is one very good success story. Let me have Dr. Roberts talk a little bit about that.

Mr. ROBERTS. On a number of these targeted groups—handicapped, disabled, alcoholics, youth, the whole range of people who have trouble in the labor market—there is now already a great deal of union-management cooperation on programs, and at the national level this is seen in the work that the AFL-CIO Human Resources Development Institute engages in often and frequently, steadily, with the National Alliance of Business and other business groups.

There are similar joint labor-management cooperation programs which are a kind of reaching out affirmative action, effects to make a constructive step on the employment opportunities for people who have special needs. In many cases, these are successful and effective not because there is any money involved. The main money is just in getting the people together. The NAB gets money from the Labor Department. HRDI gets a considerably smaller amount to provide technical assistance to unions and management people.

But I think my point here is that it is not economic incentives but a sense of social responsibility on the part of both business and labor that it is desirable, it is socially desirable, to reach out and help people in need get into the mainstream of the labor market.

Mr. GUARINI. Now, having said that, how many people would you say last year were helped? You are really talking about a very, very small part of the problem considering how many people are out there.

Now, what could be done effectively, not just what could be done because it looks good in a brochure, but what could be done effectively? How large a role should the Government play? What should it do? And how responsible should business be? And what cooperation should the unions give?

You know, we are all in this together, and I think one of the saddest stories of our national picture is the fact that our youth are left out there without any basis of support, and they will not be good citizens. There is all kinds of crime. They hang around street corners. The narcotic problem is at an alarming level in our country. Our social costs are only going to be exacerbated.

So if you don't spend it in tax strategy, you are going to spend it in a lot of other different ways.

Mr. ROBERTS. Well, I think the evidence indicates that more is achieved by doing things directly than by doing things indirectly.

Mr. GUARINI. I know, but that being said, where are the positive programs? No one is coming up with any of them. This is the only thing on the table.

Mr. ROBERTS. Well, I think, on this particular table, Congressman Hawkins has put in a youth bill——

Mr. GUARINI. That is for training people, right, but what is going to create the dignity of a job?

Mr. ROBERTS. Well, that program does go into the work-related, job-related training which leads people from the training and from the work experience into a job. So it seems to me that there are constructive paths to employment.

I think I would be wrong to suggest that this is an easy problem. I don't think it is an easy problem, but I think there are solutions that are far more effective in tackling the problem head on than in trying to provide an incentive. I agree with the points that Arnold has made before.

I think the incentive is much more likely to lead to the revolving door, and what we are looking for is a more solid, long-run employment opportunity.

Chairman STARK. I have just been toying with a couple of ideas this morning, and I am not getting much support. But if you assume that you like the long-range aspects better, then obviously it would be better to have the increase in the second year rather than decrease, wouldn't it? In other words, reverse it and take 25 percent the first year, 50 percent the second, putting the incentive on the long-range jobs.

Second, would not eliminating it for the first $6,000 and putting the credit on the second $6,000 in salary take you out of cutting the minimum wage? In other words, you are effectively knocking the minimum wage in half for the employer, and I think your testimony from labor's statement is, why cut the minimum wage: It is already subhuman.

So if you in fact didn't give any credit for the first $6,000 but only put it on the second $6,000, it would cost the Government the same amount, but you would move it toward higher skill jobs, or indeed, it is an incentive to increase the wages rather than to cut something that is already too low.

Would those items be more accepted? You are still indifferent?

Mr. CANTOR. Let me nonrespond by saying that, off the top of my head, I can't think of anything wrong with your idea, but I am sure if you give me 10 minutes I will find a hole in it. That has been the history of these tax credit proposals.

Mr. GUARINI. Just let me lastly pursue one more thing, Mr. Chairman. We have had a Civilian Conservation Corps many long years. Many of us in the room are too young, probably, to remember it, but everybody said how it worked so well, where young people actually went to camps and they learned how to build roads and dams and dikes, and they did some constructive things with our infrastructure and our environment.

Would that be against the general policy interests of the AFL-CIO if we had a program of that sort today, a modernized version of what would be an environmentalist, Interior Department, CIC type of program?

Mr. ROBERTS. We supported a youth conservation corps in the 1960's. We supported things that are more recent and ongoing.

Mr. GUARINI. Would that be going in the right direction? Do you think that would get a basis of support within the unions and the working people?

Mr. ROBERTS. Yes.

Mr. GUARINI. All right. Thank you.

Chairman STARK. I thank you, gentlemen, very much for your testimony.

Our next panel is comprised of David Robison of the Committee for Employment Opportunities; Robert Goulder of the Employers National Job Service Committee; John Bishop, the National Center for Research in Vocational Education; and Patricia Goodall with the Rehabilitation Research and Training Center of the Virginia Commonwealth University.

We are going to pick up the tempo, if we may, a little bit. We have two more panels, and the committee must at least recess or adjourn at 3 o'clock for a full committee markup.

While we don't have a timing clock, I would be the first to suggest that the Chair and the members hold their questions down. We will try to urge on you to summarize your testimony if you will or expand on it.

Would you like to proceed in the order in which you appear on the witness list, Mr. Robison starting off? Please proceed.

STATEMENT OF DAVID ROBISON, COMMITTEE FOR EMPLOYMENT OPPORTUNITIES

Mr. ROBISON. Mr. Chairman, I was making notes of some of the points that came up and some of your questions, so I would like to start with them.

A lot of my testimony is based upon a study which I did in conjunction with others. It is based on 1,500 certifications from around the Nation, randomly selected. This covers all regions of the country, all major users and user industries.

One of the advantages of this study is it is the only real data we have where we had 6 months of prehire income; we had 6 months of prehire employment history; we had 6 months of prehire Government subsidies; we know how long the people lasted on the job, what their wages were, what the tax credits were, what the net tax credits are compared to the gross tax credit; and we can calculate the two major offsets which are the increased taxes and the Government savings on assistance payments.

I have summarized those in one page, the results of the study. The first table is the average-per-person cost in offsets. It starts off with $544, which is the actual average net TJTC credit.

It is important to note that that net credit is 54 percent of the gross credit. As you may be aware, the employer can take the tax credit as a credit and also take the wages as a business deduction, so he has to back the wages into his tax liability. Almost all of these users are labor intensive. They are in the 46-percent bracket. So, typically, it is 54 percent for the net tax credit.

One then subtracts the savings on Government assistance payments. That came out, on the average, to $289. Fully half of all of the certified workers in our study were receiving Government assistance payments during the 6 months before they were hired. These were heavily UI, welfare, AFTC, in-kind payments.

So when you calculate that a person may have been receiving several thousand dollars of assistance payments and in every case that assistance was stopped when they were hired, it is not surprising that we have such a high level of somewhat over one-half as an offset when they were hired.

That leaves $255 after that offset. With the increased taxes—we are talking about the social security, the UI, and the personal income taxes—that subtracted another $164. It left an average per-person cost after these offsets of $91.

So I then multipled the $91 times the number of certifications we could expect in the following years. I took this year, where we expect to have 600,000 certifications, to have a cost this year of $55 million; next year, $64 million. With each year, I am adding 100,000 more certifications based on current growth, and the cost for 5 years with this growth is $365 million, not $2.9 billion.

I listed finally, then, the cost for a 1-year extension up to a 5-year extension. Note that the 3-year extension is $192 million.

Now, the Treasury acknowledges that there are large offsets but says that it cannot quantify them and doesn't attempt to. I have many times talked to Treasury's Office of Tax Analysis, and in fact I feel that it is not very fair because the data could be available to them, and they have had Labor Department data since 1981.

The Treasury asks the question whether TJTC makes the difference in hiring. The answer is to ask the employers of the newly hired TJTC workers or look at the employment record.

In our sample, the certified workers were employed, on the average, only one quarter of the 6 months prehire.

Now, as to the high participation rate among those screened—that is, for all the employers who knew about TJTC and used it, where it is known—there was 9 to 11 percent that the Treasury mentioned. Our sample showed 12 percent of those hired, where the TJTC people were screened, were certified. This is a very good rate of participation.

Next, about retention I must disagree with the CBO. In our study, the average retention was 8 months, not 4 months, and this is certainly borne out by the many employers we have talked to. We have asked them to run retention studies for us. By and large, they find that the retention of certified workers is just as good as the average for all hired.

Mr. Chairman, you asked the question, why not reverse the credit to 25 percent the second year? The major reason is that the hardest part for employers is to get good corporate support and compliance down the line at unit managers and hiring personnel, and if the credit is not 50 percent in the first year, we just cannot get their attention and we cannot get their use of it, and their participation, even though they are nominally in the program, drops off to very little.

The incentive is already there now for retention because you get an added credit for each additional month that the person remains employed.

The turnover is especially high in the first 90 days, so we need the biggest incentive there to hire people who we know from experience would otherwise drop out. The average dropout rate is 50 percent among the youth. That is particularly among 18-year-olds. It goes up with each year that they are older.

I feel from experience, then, from the employers, that 25 percent would destroy the incentive for many or most of these unit managers.

The problem now is to get them more into the program. You also would get far less community groups into the program because they wouldn't find it as easy to place people.

I would now like to mention the major reasons why we are urging a 3-year renewal and not simply a 1-year extension. Perhaps the first one is that next year it would seem to be even more difficult to get an extension of TJTC despite its large constituency. It is a year in which it is expected that there will be a larger deficit and large tax increases needed, and we would dread to go back next year to try to get a renewal.

The other thing is that probably more than 95 percent of small businesses don't know about TJTC. They aren't counseled about it by their accountants, and TJTC hasn't been marketed. Yet small businesses are the predominant employers of young and disadvantaged people.

[The prepared statement follows:]

STATEMENT OF DAVID ROBISON, COMMITTEE FOR EMPLOYMENT OPPORTUNITIES, WASHINGTON, D.C.

Mr. Chairman: CEO, the Committee for Employment Opportunities, is representing today over 400 companies who called members of the Senate Finance Committee last month, asking for a five-year renewal of TJTC.

These employers are major users of TJTC. Almost all of them have come into the program since 1982. They are a "Who's Who" of companies in a wide variety of industries, including most of the basic service industries of America.

These employers will be communicating their support of TJTC to the House Ways and Means Committee.

In addition, more than 100 community agencies serving the targeted groups have joined in this legislative effort.

On behalf of CEO, I would like to cover the key points concerning the cost-effectiveness of TJTC nationally: (1) What is the real cost of TJTC after the two major offsets—(a) government savings on assistance payments, and (b) increased taxes paid by certified workers? (2) how well is TJTC working as a stimulus to preferential hiring? (3) who is benefiting, and how much? and (4) what are the arguments, and objections, to a multiyear extension?

ACTUAL COSTS AND OFFSETS OF TJTC

The two key questions are: What does TJTC cost? Does it do any good?

The Treasury has said that a one-year renewal will cost $900 million; two years $1.4 billion; and three years $1.7 billion.

The Treasury admits that there are large offsets in terms of government savings and increased taxes, but that it can't quantify them, and doesn't try.

Let us look at three tables showing the real costs and offsets of TJTC.

RESULTS OF STUDY: ACTUAL COSTS AND OFFSETS OF THE TARGETED JOBS TAX CREDIT

TABLE 1.—*Average per person cost and offsets*

Net credit	$544
Federal government savings (assistance payments ended by employment)	−289
Cost after government savings	255
Increased taxes (SS, UI, personal)	−164
Per person cost after all offsets	91

TABLE 2.—*Yearly national costs with offsets*

	Millions
1st year $91 × 600,000 certs	$55
2d year $91 × 700,000 certs	64
3rd year $91 × 800,000 certs	73
4th year $91 × 900,000 certs	82
5th year $91 × 1,000,000 certs	91
Cost for 5 years	365

TABLE 3.—*Multiyear costs*

[In millions of dollars]

Number of years:	
1	55
2	119
3	192
4	274
5	365

EXPLANATION OF TABLES 1–3

These tables summarize the results of an actual study of 1,510 TJTC-certified workers, randomly sampled from across the nation.

We used real pre-hire employment, income and government assistance payments, compared to real post-hire wages and tax credits. All government assistance payments were saved once employment began.

This is the only study to show the real costs of TJTC, plus the offsets to government in the form of government savings and increased taxes. RESULTS:

ACTUAL COSTS AND OFFSETS

1. The average per person net tax credit was $544.

This $544 covers the full two years of allowable participation for each eligible person.

(Only about 15% of certified workers enter the second year in the same job. They move to other employment, where they cannot be certified again. Generally, their earned income is permanently increased: they do not fall back to welfare or unemployment.)

2. The average per person government savings was $289 from government assistance payments ended by employment.

52 percent of these certified workers had received government assistance before hire. This rate was four times higher than that of their peers.

Government savings included these payments ended by employment: AFDC, welfare, UI, in-kind assistance such as food stamps, and certain training costs.

3. Increased tax payments—Social Security, UI and personal income—averaged $164.

Larger tax payments must also be counted as an offset because, in a comparable study by the State of Maryland, the certified workers had double the income gain of their control group peers. Thus, there are real income and tax increases.

4. Half of the certified workers had no real earned income in the six months pre-hire. These are highly disadvantaged people; TJTC is well targeted.

5. TJTC certification benefited these people greatly. Their income jumped by an average 76 percent in the first six months post-hire.

6. As shown in Table 1, after these offsets are deducted, the per person cost averaged only $91.

By comparison, in the former CETA, job placement costs averaged above $3,000.

100 percent of these TJTC job placements were in the business sector from the first day of work. In CETA, job placements were only 22-29 percent after training, both profit and nonprofit.

MULTIYEAR NATIONAL COSTS WITH OFFSETS

7. The first-year actual cost of TJTC renewal would thus be $55 million: $91 × 600,000 certifications next year.

8. A second year would cost $64 million, with 100,000 more certifications per year. A third year $73 million. A fourth year $82 million. A fifth year $91 million.

9. Multiyear costs would be: One year: $55 million. Two years: $119 million. Three years: $192 million. Four years: $274 million. Five years: $365 million.

10. Comparison to Treasury estimates: Treasury figures are not based on actual certification or income data.

Moreover, the Treasury acknowledges that there are large government savings, plus increased taxes, but can't quantify them.

Also, the gain to state governments from savings and taxes is a further $51 per person. This is excluded because it doesn't affect the federal balance.

Quantification of credits and offsets—through real data—would probably bring the Treasury estimates into line with these figures.

The actual costs, therefore, are not $1.7 billion, or $1 billion, or anything near that.

We know this logically, but still an enormous cost figure—the Treasury's—is put on TJTC as a base line. That cost figure is fictitious and highly damaging.

Mr. Chairman, I urge that in any discussion of TJTC, the *real* cost estimate should be used, counting offsets. TJTC should not sacrificed to some imaginary numbers.

HOW WELL IS TJTC WORKING

TJTC grew by 113 percent in the last fiscal year.

Total certifications were 202,000 in FY 1982. The total more than doubled to 431,000 in FY 1983.

Similar growth is continuing in the current fiscal year. We should see a total of at least 600,000 certifications through September 30, 1984.

If we have a multiyear renewal—to give TJTC some basic stability—we should see a total of one million certifications by the end of two more years.

This is the real promise and potential of TJTC.

It means a very large number of preferential hires that we have not had before.

In our sample, just over half of the certified workers had no real earned income in the six months pre-hire.

This means that TJTC workers are a very needy group; that is, TJTC is highly targeted, and very successfully so, on the most disadvantaged groups in our society.

The income gains for these workers are very large. The average was a 76 percent gain in one year.

The Maryland study of TJTC showed that for some of the groups, the income gain was double that of their matched peers in a control group.

What is crucial about these figures is the preferential hiring. TJTC was not intended to raise the total number of jobs, nor to reduce general unemployment. It was intended to help theses people get hired because of adequate financial incentives to employers.

One must stress that a credit equal to 50 percent of the first $6,000 of wages the first year is crucial. Employers state unequivocally that any less incentive would fail to capture the attention of unit managers. The whole purpose would be defeated.

Indeed, for many of the most disadvantaged people, 50 percent is barely enough incentive to overcome the resistance and the barriers they face.

Wherever employers screen workers for TJTC as they hire them, we find that the average certification rate among all new hires is about 12 percent.

This is a high takeup rate, or usage rate, not a low one. It means that wherever TJTC is applied by employers, substantial preferential hiring of the disadvantaged through TJTC is occurring.

The AFL-CIO has stated that most of the certifications are retroactive, that is, that they occurred after people had started work.

I am sorry that labor is three years out of date. The TJTC law was changed in mid-1981. Employers must request certification at least by the first day of work for an eligible person. No certifications are retroactive: The Job Service checks the request letters, and their timely nature, before issuing any certification.

Labor says that is favors affirmative action instead of TJTC. What is affirmative action if it does not result in preferential hiring?

The very best way to get affirmative action in employment is through TJTC.

TJTC has the potential to accomplish ten times as much affirmative preferential hiring of the most needy groups as any other program—and all without any government grants, without any substantial employer paperwork, all in the business sector, all with 100 percent new hires, and all with an average per person cost that is trifling compared to other manpower programs.

TJTC is being widely used among service industries, where young people and those in lower-level jobs are a substantial part of the work force.

It is broadly used in the great variety of retail industries, and in manufacturing sectors, such as textiles, furniture, and shoes, that support retailing.

It is also important in hotel and lodging, travel, food service, recreation, and energy marketing industries.

Who is benefiting?

About 62 percent of the total certified workers are youth 18 to 24. Another 8 percent are summer youth. Thus, a total of 70 percent are disadvantaged youth.

Last year, 302,000 young people were hired through TJTC. In two years, about 700,000 disadvantaged young people would be hired preferentially because of TJTC.

This is a huge potential at a very low cost.

Of the other 30 percent, there are three large groups: AFDC and welfare recipients, veterans, and the handicapped.

For example, about 150,000 AFDC and welfare recipients would be hired preferentially in 1986 because of TJTC.

About 100,000 disadvantaged Vietnam-era veterans would be similarly hired.

About 100,000 handicapped people would be hired.

In summary, TJTC has the largest potential, at the lowest cost, to get more disadvantaged people hired than any other government program.

It needs only a multiyear renewal to build its use among more employers and community groups.

Three years is a minimum time to allow TJTC the stability afforded to other serious government programs.

Please help us to achieve this potential.

Chairman **Stark**. Thank you.

Mr. Robison, would you submit for the record the complete text of your study, the name of the 400 companies, and who pays for the Committee for Employment Opportunities, what their contributions are?

Mr. **Robison**. I would be happy to.

Chairman **Stark**. Thank you.

[Mr. Robison did not supply any additional information.]

Chairman **Stark**. The next witness will be Mr. Goulder of the Employers National Job Service Committee.

Mr. Goulder, I would ask, before you begin to summarize your statement, that you submit the list of the members of your organization and how it is financed, and if you would care to include any statistics in your testimony, the committee would like to have whatever references or citations might be available to support those statistics.

Proceed in any manner you see fit.

STATEMENT OF ROBERT F. GOULDER, VICE CHAIRPERSON—EAST, EMPLOYERS' NATIONAL JOB SERVICE COMMITTEE

Mr. GOULDER. Good morning, Mr. Chairman.

My name is Robert F. Goulder. I am manager of personnel, the Great Lakes Steel Division of National Steel Corp. in Detroit, MI.

I also serve as vice chairperson, east, of the Employers' National Job Service Committee, and I am testifying in that capacity today.

On December 31, 1984, the current legislation authorizing the Targeted Jobs Tax Credit Program will expire. The President's proposed fiscal year 1985 budget acknowledges support for the continuation of the TJTC Program but with a major change and two significant shortcomings which are of paramount concern to the private sector and to which I want to address my testimony this morning.

The Employers' National Job Service Committee and the Job Service Committee members nationwide recommend supporting the reauthorization of the TJTC Program but with three modifications to the President's proposal: First, to fund out of general revenues rather than from our private sector paid FUTA taxes; second, to fund adequately by formula; and, third, to fund for more than a single year at a time.

We recommend that the Targeted Jobs Tax Credit Program continue to be funded out of general revenues, as done in previous years, rather than from our private sector paid FUTA taxes as specified in the President's proposed fiscal year 1985 budget.

It is our opinion that title IX of the Social Security Act, which governs the use of FUTA taxes, does not permit the expenditure of these resources for the TJTC Program. We feel that the taking of FUTA taxes from one employer and giving them to another private sector employer is not only illegal but is totally and completely unacceptable to the private sector. We do not feel that our tax revenues should be used to benefit other private sector employers.

The rationale for our second recommendation is that the TJTC Program has been funded at the same level, $20 million, for the last 3 years, and this amount does not take into account inflation and the increased private sector involvement with this program.

We feel the proposed funding level fails to meet the program's needs and the needs of the targeted groups it is designed to serve. We recommend that adequate funding levels be developed based on annual performance experience, both vouchering and certification, in combination with inflation factors.

As is true of any Federal program, it took the private sector a while to accept and respond to the TJTC Program. The private sector has found it to be a very well designed program with effective and simple administrative procedures. However, as is true of any Government program, the private sector acceptance is tempered by the uncertainty of the program's future and funding. Therefore, we support the 3-year extension in the Senate Finance Committee tax reduction package.

The TJTC Program is widely accepted and is continually gaining increased support in the private sector and should be adequately funded to meet the private sector demand. TJTC utilization has increased 100 percent in the last 9 months, and based on this current private sector level of acceptance, many State Employment Security Agencies will exhaust their fiscal year 1984 TJTC funds by the end of April. My State, Michigan, ran out of TJTC funds last Friday—April 6.

We in the private sector recognize and support your committee's dedication to reducing expenditures and our national debt, but we also ask you to consider increasing the administrative funding for the TJTC Program based on annual acceptance and inflation.

Our rationale for this recommendation is that the TJTC Program is not a welfare maintenance but rather a program that removes persons from welfare and places them in self-sustaining jobs which produce increased revenues for the Government in the form of taxes and return money to the economy. It is our belief that the TJTC Program provides an opportunity for persons who would not ordinarily be hired to be introduced to the work ethic and gain the necessary experience required to become qualified candidates for higher paying jobs.

The Employers' National Job Service Committee also recognizes the need for a TJTC employer appeal process. We feel this recommendation can be handled through changes in the administrative process rather than by legislative changes. Specifically, this can be accomplished through the inclusion of an appeal process in the new TJTC regulations.

The Employers' National Job Service Committee thanks you for this opportunity to testify before your subcommittee and share our private sector concerns with you. We sincerely hope that you and your colleagues will give serious consideration to the three recommended changes to the fiscal year 1985 targeted jobs tax credit reauthorization that we have proposed in this testimony and include them in your House tax reduction program.

Thank you.

[The prepared statement follows:]

STATEMENT OF ROBERT F. GOULDER, VICE CHAIRPERSON—EAST, EMPLOYERS' NATIONAL JOB SERVICE COMMITTEE

Mr. Chairman, My name is Robert F. Goulder, I am manager personnel planning, Great Lakes Steel Division, National Steel Corp. Detroit, MI.

I also serve as Vice Chairperson-East of the employers' National Job Service Committee and I am testifying in that capacity today.

The Employers' National Job Service Committee (ENJSC) is comprised of more than 22,000 private sector employers who are actively involved as volunteers in over 1,000 Job Service Employer Committees in all 50 States, 3 Territories and the District of Columbia giving in excess of 150,000 hours of volunteer time each month dedicated to the effective utilization of our private sector paid Federal Unemployment Tax, or FUTA Tax as it is better known.

These private sector paid FUTA taxes provide 97% of the cost of funding the United States Employment Service, or Job Service as it is known nationwide.

Our Employers' National Job Service Committee and regional, statewide and local Job Service Employer Committees, or the JSEC program as they are referred to, consist of Human Resources Directors, Personnel Managers and Employment and Training Supervisors.

President Reagan recently identified voluntarism as a major resource that can help make our country strong again. We employment and training professionals are dedicated to making this come true by mobilizing our nationwide volunteer organization and the wealth of knowledge and experience it encompasses to help the Job Service improve its delivery system and service capability to applicants and employers while helping to reduce unemployment.

The paramount objectives of the Employers' National Job Service Committee are to support local, state and regional Job Service Employer Committees by functioning at the national level to: (1) Maintain a dialogue with the U.S. Department of Labor and other appropriate agencies, organizations and individuals about private sector concerns in employment and training; (2) coordinate employer efforts and the exchange of information; and (3) seek solutions and make recommendations concerning employment and training related problems in need of national attention.

On December 31, 1984, the current legislation authorizing the Targeted Job Tax Credit Program (TJTC) will expire. The President's proposed FY-85 budget acknowledges a support for the continuation of the TJTC program but with a major change and two significant shortcomings which are of paramount concern to the private sector and to which I want to address my testimony this morning.

The Employers' National Job Service Committee and the Job Service Employer Committees nationwide recommend supporting the reauthorization of the TJTC program but with three modifications to the President's proposal: (1) Fund out of general revenues rather than from our FUTA taxes; (2) fund adequately by formula; and (3) authorized for more than a single year at a time.

We recommend that the TJTC program continue to be funded out of general revenues as done in previous years rather than from our private sector paid FUTA taxes as specified in the President's proposed FY-85 budget.

It is our opinion that Title IX of the Social Security Act, which governs the use of FUTA taxes does not permit the expenditure of these resources for the TJTC program.

We feel that the taking of FUTA taxes from one employer and giving them to another private sector employer is not only illegal but is totally and completely unacceptable to the private sector. We do not feel that our tax revenues should be used to benefit other private sector employers.

The rationale for our second recommendation is that the TJTC program has been funded at the same level, 20 million dollars, for the last three years and this amount does not take into account inflation and the increased private sector support of this program. We feel the proposed funding level fails to meet the program's needs and the needs of the targeted groups it is designed to serve. We recommend that adequate funding levels be developed based on annual performance experiences (both vouchering and certification) in combination with inflation factors.

As is true of any Federal program, it took the private sector as while to accept and respond to the TJTC program. The private sector has found this to be a very well designed program with effective and simple administrative procedures. However, as is true of any government program, the private sector acceptance is tempered by the uncertainty of the program's future and funding. Therefore, we support the three year extension in the Senate Finance Committee tax reduction package.

The TJTC program is widely accepted and is continually gaining increased support in the private sector and should be adequately funded to meet the private sector demand. TJTC utilization has increased 100% in the last nine months and based on this current private sector level of acceptance many State Employment Security Agencies will exhaust their FY-84 TJTC funds by the end of April.

We in the private sector recognize and support your Committee's dedication to reducing expenditures and our national debt, but we also ask you to consider increasing the administrative funding for the TJTC program based on annual acceptance and inflation. Our rational for this recommendation is that the TJTC program is not a welfare maintenance program but rather a program that removes persons from welfare and places them in self-sustaining jobs which produce increased revenues for the Government in the form of taxes and return money to the economy. It is our belief that the TJTC program provides and opportunity for persons who would not ordinarily be hired, to be introduced to the work ethic and gain the necessary experience required to become a qualified candidate for higher paying jobs.

The Employers' National Job Service Committee also recognizes the need for a TJTC employer appeal process. We feel this recommendation can be handled through changes in the administrative process rather than by legislative changes. Specifically, this can be accomplished through the inclusion of an appeal process in the new TJTC regulations.

The Employers' National Job Service Committee thanks you for this opportunity to testify before your Subcommittee and share our private sector concerns with you. We sincerely hope that you and your colleagues will give serious consideration to the three recommended changes to the FY-85 Targeted Job Tax Credit reauthorization that we have proposed in this testimony and include them in the House tax reduction package. Thank you.

LIST OF MEMBERS OF OUR ORGANIZATION

The employers' National Job Service Committee (ENJSC) is comprised of more than 22,000 private sector employers who are volunteering their time and experience in over 1,000 Job Service Employer Committees (JSEC) in all 50 States, 3 territories and the District of Columbia to ensure the effective utilization of our private sector paid FUTA taxes. The size of our organization makes it impossible to provide you with all 22,000 members names at this time.

Mr. GOULDER. Now, to answer the questions you asked me initially, how are we funded? We are a voluntary group of personnel managers, employment directors, employee benefit managers, training directors, who volunteer our time as members of employer committees at the local level, State level, regional level, and national level, working with the Department of Labor, the Employment and Training Administration, and the Veterans Employment Training Service. To insure the effective utilization of our private sector paid FUTA taxes.

We receive limited funds from the Department of Labor.

Chairman STARK. Thank you very much.

The next witness is John Bishop of the National Center for Research in Vocational Education, Ohio State University.

STATEMENT OF JOHN BISHOP, PH.D., DIRECTOR, RESEARCH DIVISION, NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION, THE OHIO STATE UNIVERSITY

Mr. BISHOP. I appreciate this opportunity to contribute to your committee's deliberations regarding the revision and reauthorization of the targeted jobs tax credit.

I am Dr. John Bishop, director of the research division at the National Center for Research in Vocational Education, located at the Ohio State University.

I would like to thank the Upjohn Institute for its current support of my work in this area, and the Department of Labor, the National Institutes of Education, the Congressional Budget Office for past support.

I testify, however, in my capacity as a private citizen, not as an employee of Ohio State University, and therefore my views do not represent the university or anyone that has helped pay for research in the past.

In my testimony, I would like to try to answer quickly three questions and then make some recommendations or comments on some of your suggestions for revisions in the Targeted Jobs Tax Credit Program.

I am going to try to answer why are so many eligibles not being claimed; does the program increase employment; and, finally, is the emphasis on creating jobs in the private sector rather than in the public sector desirable?

Why are so many eligibles not being claimed? The basic answer is ignorance on the part of employers as to who is eligible. About 10 percent of eligibles are claimed. We asked employers, have you hired an eligible but then not claimed him? The answers we got imply that about 4 percent of the eligibles are hired and known to be eligible but not claimed. For about half the people not claimed, legitimate structural reasons were given such as they were there for too short a time or our company was not eligible.

The other reasons given for not claiming an eligible were that the paperwork was too great. We have made the paperwork in this program as little as possible, so I am not sure that much can be done in that area.

The real problem is that in most cases individuals who are eligibles don't know that they are eligible, and employers do not know when a person applies for work that the individual is eligible. That is the primary reason for the low participation rate. That should change over time, and one can anticipate growth in usage of the program.

Does the program change employment, increase employment? There are at least three ways of trying to answer that question. We have asked employers straight out, did you increase employment because of the program? When we ask them that question, generally about 25 percent or so say yes, and in one study, when we compared the number of extra employees they said they hired as a result of the program to the total number of eligibles that they received subsidy for, it was a ratio of about .02.

Another way of addressing that question is to compare firms that used the program to firms that didn't use the program and see whether employers that hired eligible people and claimed the credit grew faster than firms that did not. When you do that, using econometric methodology that tries to control for other factors that influence growth—this is in studying 1979 experience with the program, so it is right at the beginning of the program—we got that the average effect was about .03; in other words, that for every 10 people subsidized, there was an increase in employment at that time of about 3 persons.

This seems to be to be a rather positive result. A similar study by CBO that they reported on got a somewhat smaller impact. But still, when we do do these kinds of studies, we do observe an effect.

Another way of addressing the issue of whether the program is having an effect upon employment is, if it is, we should observe that people hired and eligible should be less productive and have fewer credentials and seem to the employer to be a poorly qualified worker.

When we addressed that question by asking employers about the people that they hired through the program who were eligible, and attempting to control for the characteristics of the job, or in fact comparing two people in the same job, we get the result that they are less productive, both initially and later—at the time of the interview—they were more likely to quit or be dismissed; and they were not, however, receiving any more training than other people.

We have done a number of studies along those lines, and if I had to attempt to characterize how much less productive TJTC workers are than people in the same job who are not TJTC eligibles, it would be somewhere under 10 percent less productive. Seven percent is probably a median from a variety of studies.

This suggests that firms are making a sacrifice when they hire TJTC-eligible people. Since we do want jobs to be created for TJTC-eligible people, we do need to provide a subsidy in order to encourage firms to hire those people. However, maybe a 50-percent subsidy is not required.

That leads me to my list of recommendations. Before I do that, let me just make one comment on the private job versus public job issue. An alternative is to create CETA-type jobs, public sector jobs, for people who are eligible, and that was the approach used many years ago. I am not sure that that is the real alternative in the current political environment, but imagining that we did have that as an alternative, would that be a good idea?

We did a study in which we asked employers to rate people by how employable, how much they wanted to hire people, and we varied the credentials that this hypothetical person had. We asked them to compare job applicants with previous work experience in different sectors of the economy: the public sector; in large private firms; and in small private firms.

The employers, most of whom were large private employers, preferred to hire people who had had jobs at large private employers. Working at a small private employer or in the public sector didn't pay off as much in terms of this employability rating as a job in a large firm.

This supports the oft made argument that you learn skills in a private job that have more application in other private jobs. As a result, private employers seem to give preference to job experience that has been in the private sector over experience in the public sector.

Most economists are very concerned about the level of deficit, so I am going to make some suggestions as to ways costs might be reduced without comparably reducing the effects and participation in the program, though we can anticipate increased usage of this program as it becomes better known.

My recommendation would be to reduce the rate of subsidy from 50 down to 25 or 33 percent in the first year; keep the subsidy rate at 25 percent in the second year. That is sort of compromise instead of going all the way as you suggested.

I suggest, in addition, that training expenses be added into the base subsidy—training expenses, time of people other than trainee or the individual subsidized; and put a cap of $3,000 or $5,000 on what those expenses might be.

That would give preference to jobs that have a large training component in them. It would tend to encourage firms to hire TJTC eligibles for jobs that involve considerable training—for example clerical jobs—rather than for fast food jobs.

A second suggestion involves a change in the definition of who is eligible. The big problem with the program is the stigma attached to being in the eligible pool. Most of the defining characteristics that makes one eligible are viewed by employers as negatives, especially being on welfare and being an ex-convict.

If it can be done, it would be desirable to define eligibility by something other than being on welfare. For the aged, this might be done by defining it as being just low income and over 65 and substitute that for the SSI category. There were only 1,254 certifications last year in the SSI category. It is not being used at all.

Old people, especially, are very sensitive to stigma, of being on welfare, and they don't want anyone to know that they are on SSI when they are. Consequently, the eligibles who do want to work are avoiding announcing the fact that they are eligible. There have been these two experiments mentioned in the CBO testimony in which welfare recipients were trained to advertise that they were eligible for TJTC when looking for a job. They were less likely to get a job than people who were eligible and had been vouchered but were not advertising the fact of their eligibility. The difference was quite dramatic.

Another way to reduce stigma would be to substitute a low-income adult eligibility category for the AFDC and ex-con eligibility categories. This would greatly increase the pool of eligibles.

This would significantly increase utilization of the program and as a result will cost a great deal of money.

If you are looking for another way to save money——

Chairman **Stark**. Well, I think we are, but I think we are going to have to ask you to submit that as additional addendum for your testimony.

Mr. **Bishop**. All right.

[The prepared statement follows:]

STATEMENT OF JOHN BISHOP, THE NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION, OHIO STATE UNIVERSITY

I appreciate this opportunity to contribute to your committee's deliberations regarding revision and reauthorization of the Targeted Jobs Tax Credit. I am Dr. John Bishop, director of the Research Division of the National Center for Research in Vocational Education located at The Ohio State University. I would like to thank the Upjohn Institute for its current support of my work in this area and the Department of Labor, the National Institutes of Education and the Congressional Budget Office for their past support.[1] I testify however in my private citizen capacity, not as an employee of The Ohio State University. As such, the views presented herein are personal in nature and not intended to reflect the views of the National Center for Research in Vocational Education, The Ohio State University, or its sponsoring agencies.

THE TARGETED JOBS TAX CREDIT

Beginning in 1979 employers outside the personal service sector have been able to obtain a tax credit of 50 percent of the first $6,000 of wages per employee for the first year of employment and 25 percent of such wages for the second year of employment for the hiring of certain categories or workers. These included high school students in cooperative education programs, economically disadvantaged youth (eighteen through twenty-four), veterans and exconvicts, Supplementary Security Income and general assistance recipients, and the handicapped.

The problem of low participation

The program started slow; but by fiscal 1981 it had grown to a point where 400,000 workers were being certified per year. Eligibility was tightened in 1981 and that combined with the recession reduced the number of certifications to 202,261 in fiscal 1982. With the end of the recession the total number of certifications rebounded to 431,182 in fiscal 1983.

TJTC has had greater success at obtaining employer participation than previous targeted employment subsidies like the WIN tax credit, NAB-JOBS and CETA-OJT. This was due to the following three features of TJTC:

1. It is an entitlement. Reluctance on the part of local agencies to administer it cannot prevent a persistent employer from obtaining certification of employees that are eligible. In fact, ETA's 1979 Study of Early Implementation of TJTC found "that rather limited vouchering and certification activity that had

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[1] The Research Division of the National Center has a grant from the Department of Health and Human Services to conduct a more intensive analysis of the TJTC questions in the NCRVE employer survey than has been done so far. I would like to thank HHS for their support. This work has only just begun and is not at a stage where I can report on it. Consequently today's testimony is a synthesis of what has been learned from part analyses of these and other data on TJTC and other published studies.

taken place by then was largely in response to employer and applicant inquiries rather than active promotion by their staff."

2. At least one target group—the Co-op Ed students—was defined by a characteristic that does not carry stigma. For this group, student and employer certification were made into a one-step process and responsibility was centralized in the hands of a person—the high school official responsible for Co-op Ed—who was being judged by school supervisors on the basis of the number of jobs found for the target group. As a result, 45 percent of all jobs certified for TJTC's have been for Co-op Ed students. The 1981 reauthorization of TJTC limited the eligibility of Co-op Ed students to those from disadvantaged families so this comment does not apply to the current TJTC program; and

3. Participation in TJTC requires less paperwork than CETA-OJT or the JOBS and early WIN programs did and requires fewer contacts between government agencies and the employer.

Nevertheless, the TJTC is currently helping less than 10 percent of the pool of young people eligible for the program.[2] There are three primary causes of TJTC's low participation rate:

1. For a long time most employers were not aware or were only vaguely aware of the program. A spring 1980 survey of employers found that only 17 percent of all employers representing establishments responsible for 33 percent of all employment reported being "familiar" with TJTC (EOPP Employer Survey). Firms that reported being familiar with the program often knew very little about it. The program is now much better known. A 1982 resurvey of these same employers found that 80 percent had "heard" of TJTC and 50 percent had spoken to a representative of government or a trade/business organization about the program.

2. There is a stigma attached to being a member of most of the TJTC's target groups. Employers perceive the program to be subsidizing people who do not make good workers. This reduces the likelihood that employers will ask the employment service to refer TJTC-eligible workers to their firm. Furthermore, many applicants feel that telling prospective employers of their eligibility for TJTC may hurt their changes of getting the job.

3. The complicated rules of eligibility means that most employers are unable to identify who is eligible on their own and that government certification of employee eligibility is necessary. This has three disadvantages: (a) it often forces the firm out of its traditional recruitment channels; (b) employers fear that it will introduce red tape into the hiring process or bring about unwelcome government interference (the costs of identifying and certifying who is eligible are thus major deterrents to participation); (c) the program's success depends upon cooperation between private business men and government bureaucrats. (Most employers are very wary of government and the attitude of government employees in some parts of the country reinforces their distrust.)

The 1982 NCRVE employer survey asked employers who had heard of TJTC whether they planned to ask the Employment Service for referrals of TJTC eligibles when they needed to hire unskilled workers in the future. Only 27 percent yes. The other 73 percent were asked "why not" and their answers are reported in Table 1. The reasons cited for not planning to ask for referrals generally related to either not needing or wanting people of the type who would be eligible or not wanting to deal with the agency, the employment service, that was proposed by the question as the referral source. Thirteen percent were not expecting to hire anyone, 7.6 percent did not need the types of workers who might be eligible and 17.5 percent thought eligible workers would not be skilled or reliable enough. Dissatisfaction with the employmnt service was very common—8.5 percent expressed dissatisfaction with previous ES referrals and another 23 percent said I don't use the employment service without citing a reason. The responses suggest that having to obtain referrals and certifications from the employment service may be an important barrier to participation. The next most common reason for not planning to participate was paperwork 10.7 percent. Only 3.3 percent mentioned the possibility of government interference or IRS audit as a negative and only 1.3 percent claimed the tax benefit was to small.

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[2] The Congressional Budget Office has estimated that there were *5 million* disadvantaged youth in March 1983. In FY 1983 there were 259,309 certifications in this category.

TABLE 1.—*Reasons for not planning to ask for referrals of tax credit eligibles when an unskilled worker is needed*

	Percent of responses
Not hiring that type of worker/not eligible	22.0
Don't expect to be hiring	13.0
Will not be needing types of workers who might be eligible	7.6
Would not benefit because we have no tax liability	.2
We are not eligible	1.2
Eligibles/referrals are thought to be poor workers	26.0
Eligible workers not skilled enough	14.0
Eligible workers not reliable enough	3.5
Dissatisfied with employment service referrals	8.5
Don't use the employment service	23.2
Criticism of TJTC program	15.3
Too much paperwork	10.7
Might result in government interference	3.3
Tax benefit not big enough	1.3
Applicants should be judged by qualifications and not by tax credit availability	6.5
Other/didn't think of it	7.0
Total	100.0

Unweighted tabulation of answers to "Can you tell us why you do not plan to ask for referrals." That was asked of the 73 percent of respondents who answered "no" or "don't know" when asked "In the future, do you plan to ask for referrals of tax-credit eligible employees when you need to hire unskilled workers?"

Since many of the negative references to the employment service were probably a consequence of problems with previous referrals, it should be clear that the primary barrier to universal participation is the perception that eligible referrals will be less productive and less stable workers. Since low productivity was the primary criterion for selecting the groups that would be eligible for TJTC, this should not be a surprise. If the program is well targeted, it is almost inevitable that employers will perceive it this way.[3]

The stigma attached to being a member of one of the targeted groups cannot explain why employers do not request a certification for employees they know to be eligible. The 1982 NCRVE survey found that certifications were not requested for 15 percent of the known TJTC eligibles that were hired. The 118 firms that reported not applying for a tax credit for one or more of their eligible hires were asked why. Their answers are reported in Table 2. Forty-six of the firms cited legitimate structural reasons for not applying—employee left too quickly, firm not eligible, deadline passed etc. Seventeen reported that not knowing how was responsible for not applying and twenty-five reported the paperwork was too great. Only 3 complained the tax benefit was too small, only 8 said they don't want to get involved with government and only one mentioned a fear that appplying might result in government interference. Thus among firms that hire eligibles the primary barriers to participation seen to be paperwork and ignorance. Of the two, ignorance is the most important for there are large numbers of firms that hire eligibles but do not realize it.

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[3] What is important for the cost effectiveness of the program is how the existence of the program and resulting experiences with eligible workers change employer perceptions of the productivity of eligible workers. If the very fact that government has chosen to subsidize the hiring of a particular group causes employers to anticipate even lower output from the group, the program will not be cost effective. It, on the other hand, participating employers discover that eligibles are better than they previously thought, the program will be very cost effective. Since employers are reporting that the TJTC eligibles they hire are only slightly less productive than other workers in the same job and some employers are rapidly expanding their hiring of TJTC eligibles, the tax credit may be having the desired effect of raising some employer opinions of the productivity of disadvantaged workers.

TABLE 2.—*Why employers who hired eligible workers did not obtain certification*

	Number of responses
Administrative structural reasons	46
Deadline for applying past	5
Employee left before being certified	12
Employee did not stay for required length of time to be certified	9
Not eligible for other reasons	11
General/other administrative and structural	9
Lack of knowledge/don't know how	17
Benefits did not outweigh costs	32
Paperwork too great	25
Tax benefit too small	3
General	4
Don't want to get involved with Government	8
Might reasult in interference	1
Worker ability	2
Other	12
Total	118

Answers to the question "Why didn't you apply for the tax credit for these eligible employees?"

Minimizing paperwork was an important consideration in the original design of TJTC. Most of the complexity and paperwork that remains is an inevitable consequence of the highly targeted nature of the program. The complicated nature of the eligibility rules and the resulting necessity of employment service involvement in the referral and certification of eligibles do not, however, match up well with the recruitment processes that predominate in the relevant labor markets. Each month the typical employer in this labor market is hiring one employee for every ten already on board (Cohen and Schwartz 1979). The probability that a new hire will still be with the firm six months later is less than 50 percent. As a result, employers try to keep the cost of searching for new employees to a minimum. Studies of how people have obtained their last job find that 35 percent of all jobs were found by applying directly to the firm without suggestions or referrals and that another 26 percent were obtained by applying directly to the firm at the suggestion of a friend or relative (Rosenfeld 1975). Most firms prefer to hire people who are recommended by current employees or who have shown their desire for the job by personally coming to the establishment and applying. Seventy percent of the employers with vacancies do not list the opening job with the employment service (Bishop, Barron and Hollenbeck 1983). As a result, even though 34 percent of all workers had checked with the employment service during their last period of job search, only 5.1 percent had gotten their jobs through an employment referral. Employers prefer informal recruitment channels because (a) such channels are faster, (b) employers do not become inundated with job applicants who must be interviewed, (c) prescreening is possible so the number of applicants who are turned down is minimized, (d) they can avoid dealing with government and (e) they believe they find better job candidates from informal sources.

This preference acts to limit the market penetration of any program for finding jobs for the disadvantaged that depends upon a labor market intermediary—the employment service, WIN office or a JTPA subcontractor such as the Urban League. High participation rates will be achieved only when unusually dedicated and competent people are running the labor market intermediary. With only ordinary leadership, such a program is bound to be only partially successful—helping some of the people who approach the agency for help but failing to reach most of the eligible population.

The targeted employment subsidies that preceded TJTC all necessitated agency referrals of eligible job applicants. With TJTC there are two alternate ways of bringing subsidy, employer, and job seeker together. Job seekers may inform employers of their eligibility. This does not now occur to a significant degree because most eligible workers are unaware of TJTC's existence and because most employment service offices do not routinely inform the eligibles that do come to it for assistance that they are eligible. The other barrier to this mechanism becoming important is the reluctance of many job applicants to advertise their TJTC eligibility for fear they will be stigmatized. Ths reluctance seems to be justifield. Two experiments, one in Dayton, Ohio and the other in Racine, Wisconsin in which TJTC-eligible welfare recipients were trained to inform employers of their eligibility for a tax credit found such training caused a statistically significant reduction in placement rates (Burtless and Cheston 1981; Moran, et al, 1982).

The second alternative mechanism assigns the initiative to the one who most directly benefits from the tax credit, the employer. This scenario envisions employers' screening their job applications for eligible individuals and then sending them down to the employment service for vouchering and certification before or after they are hired. Presumably, anticipating that A may be eligible for subsidy and B is not will increase the probability that A is offered the job. The use of family income and participation in welfare programs as targeting criteria, however, makes it difficult for employers to know who is eligible and thus prevents many employers from taking the tax credit into account when hiring. Sending job applicants over to the employment service prior to hiring does not seem to have become popular for it delays the hiring process, risks losing the worker altogether, and is thought to be unethical by many employers. Identification of eligibles by the employer (or his agent) seems to have become the primary mechanism by which employers identify and certify TJTC elighible workers.

The agencies that administer TJTC at the local level have an extremely critical role to play even when agency referrals are not the primary way employers recruit and identify eligible job candidates. They must market the program. Studies of employer participation in TJTC have found it to be quite responsive to personal contact by job developers and other local administrators of the program.[4] Not only do these contacts inform employers of the programs existence but they also greatly increase the probability that knowledgeable firm will participate. Firms that first learned of WIN from a government representative were nearly twice as likely to participate in WIN and two thirds more likely to participate in TJTC (Bishop and Montgomery, 1983). Firms that have participated once are very likely to pariticipate again.

The importance of local outreach and promotion is further supported by the dramatic difference between states in the proportion of their disadvantaged youth that are served by the program. Vermont, for instance, vouchers 35 percent of their eligible youth and certifies 9.2 percent while New Hampshire vouchers only 10 percent and certifies 3.8 percent. Kansas vouchers 29 percent and certifies 11.6 percent of eligible while Colorado vouchers only 2.9 percent and certifies only 2.5 percent. Maryland vouchers 21 percent and certifies 8.6 percent while Delaware vouchers only 7.6 percent and certifies 3.7 percent. The rates of vouchering and certification of eligible youth for all fifty states are presented in figure 1 and 2. The willingness of firms to participate in these program does not vary appreciably from state to state; what does vary are the policies and commitment of the local administrations of the program.

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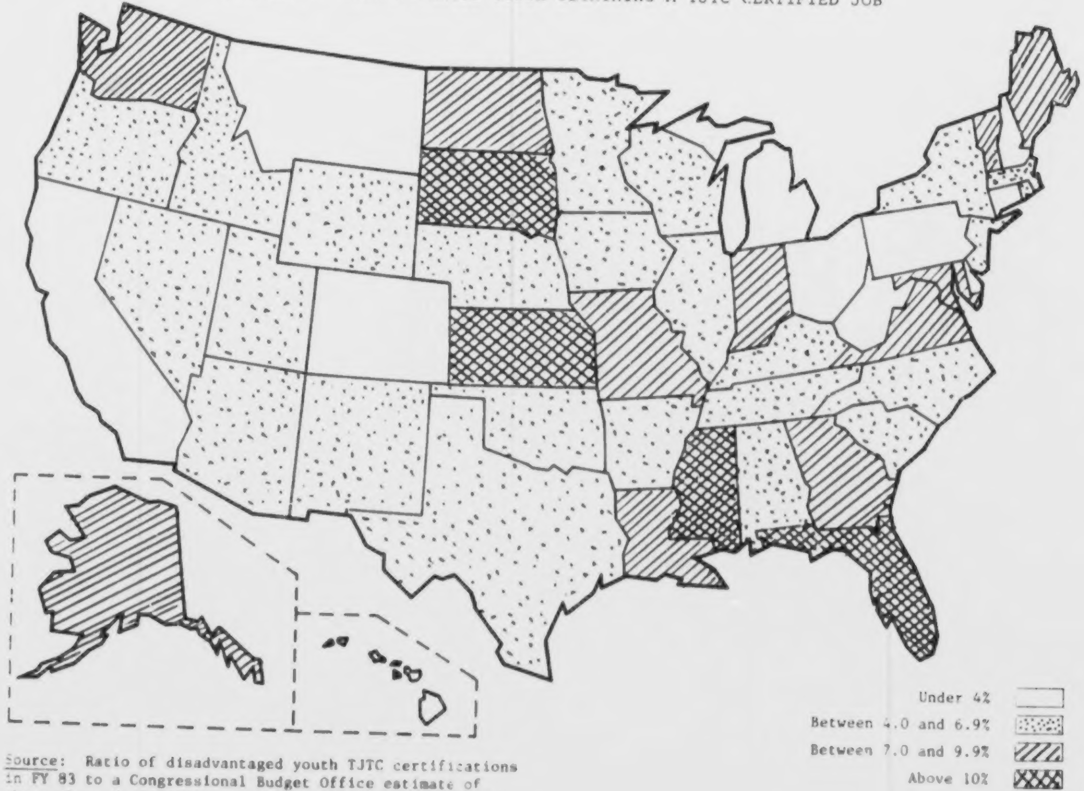
[4] In a demonstration program in Fond du Lac, Wisconsin, job developers for a short term try out and train employment subsidy found that 4 of every 10 firms contacted agreed to participate. (Public/Private Venture, 1983. p. 28.)

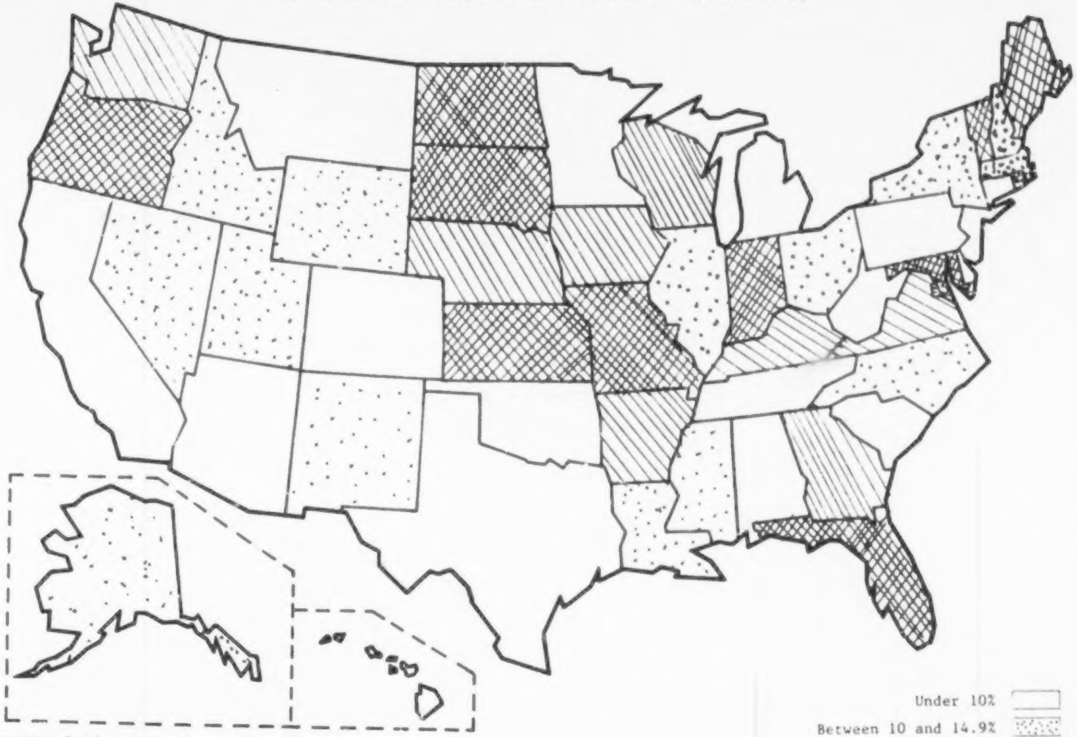
PERCENT OF DISADVANTAGED YOUTH OBTAINING A TJTC CERTIFIED JOB



Source: Ratio of disadvantaged youth TJTC certifications in FY 83 to a Congressional Budget Office estimate of the number of eligibles in each state based on the CPS.

Figure 1

VOUCHERING OF ELIGIBLE DISADVANTAGED YOUTH--FY 83



Under 10% ☐
Between 10 and 14.9% ░
Between 15 and 19.9% ▨
Above 20% ▩

Source: Ratio of disadvantaged youth TJTC vouchers in FY 83 to a Congressional Budget Office. Estimates of the number eligibles in each state is derived from the March 1983 CPS.

Figure 2

There have been a number of examples of administrative foul ups that have impeded participation in TJTC. In 1979, when the federal contribution to administrative costs ran out in the state of Wisconsin, certification dropped to almost zero for the final three months of the year. One Oregon employer found his local employment service ignorant of TJTC and uncooperative, as well. He claimed they were not even set up to certify the eligible workers that he found and hired; he had to go down to the office to teach the staff there how to certify someone. If all states were to adopt the exemplary policies and marketing philosophy of states such as Vermont, Maryland, Kansas, South Dakota, Florida and Mississippi the utilization and impact of TJTC could be doubled.

The problem of cost effectiveness

The purpose of the TJTC program is to induce firms to increase their hiring and training of disadvantaged workers. The program can be considered cost effective only if a reasonable proportion of TJTC certifications represent an increase in hiring of targeted workers and this hiring does not result in other similarly disadvantaged workers not being able to find a job.

The fact that most employers choose not to participate in a program cannot be interpreted as strong evidence that the program is not cost effective. The low rates of employer participation in these tax credit programs suggest that non-pecuniary costs of participation are high for many firms. Some of these costs—learning enough about the program to use it, making arrangements for the referral of eligible workers, establishing a system to identify which job applicants are eligible and the risk of being subjected to greater scrutiny by EEOC or the IRS—are fixed (i.e., do not rise with the number of eligibles hired). These costs discourage participation, but for those who do participate they should have no systematic effect on the impact of the subsidy on employment. Other non-pecuniary costs depend upon the number of workers hired through the program. The variable costs are the costs of searching for identifying, and certifying eligible workers and the risk of hiring workers and the risk of hiring workers that are less productive than the typical unsubsidized job applicant. These costs lower the net benefit of hiring extra subsidized workers, and therefore, reduce the impact of the subsidy on participating firms. Our study of participation in these programs suggest that for TJTC and WIN fixed costs are a more important deterrent to a firm's participation in these programs than the variable costs (Bishop and Montgomery 1983, pp. 29-45). Many of the firms that choose to participate seem to participate very heavily. Even though less than 1 percent of all workers are subsidized, the typical subsidized worker is working in an establishment at which 14.6 percent of the firm's employees are subsidized. This suggests that in some of the participating firms the marginal costs of hiring subsidized workers are and remain low as the employer expands his employment of subsidized workers. This means that the fact that participation rates of firms are low cannot be taken as evidence that a program has zero or only small effects on those firms that choose to participate. In fact, a reasonable argument can be made that that the response (extra employment) per dollar of expenditure will be bigger in a small program than a large program. When there are important fixed costs to particiaption, firms with high elasticities of demand for the subsidized class of workers and low marginal cost of certifying extra workers are more likely to participate than firms with low elasticities of demand and high marginal costs of participation. As a result, one might rexpect that the first firms to volunteer to participate will be more responsive than the firms that are talked into participating at later date.

There are, however, other reasons for being concerned about cost effectiveness. Five types of evidence are available:

1. Data on retroactivity—proportion of certifications made after hiring date.
2. Experiments in which eligible job seekers are taught to announce their eligibility to prospective employers.
3. Survey responses by employers about how they were influenced.
4. Econometric estimates of employer response.
5. Data on the relative productivity of TJTC eligibles.

Retroactivity

For the first two and a half years of the TJTC program employers could apply for certification of an eligible employee long after the hiring date. The consequence was that many tax credits were awarded for employees whose eligibility was not learned of until after the date of hiring. During this period approximately 63 percent of the non Co-op Ed certifications of eligibility were being obtained after the individual had been hired. This has been interpreted as implying that the tax credit was not influencing many of the hiring decisions that resulted in receipts of a tax credit, and therefore, was producing "windfalls" for employers. Because of this concern the Economic Recovery Tax Act of 1981 outlawed retroactive certifications. Since fall 1981 all new certifications have had to be requested by the employer prior to the eligible individual's employment starting date. This change has probably significantly improved the cost effectiveness of the TJTC program.

Experiments where job seekers announce their eligibility

Ther have been two experiments where welfare recipients who were seeking employment were taught to announce their eligibility for a TJTC to employers when they applied for a job. In both experiments the group that received this training had a lower placement rate than other eligible welfare recipients who did not receive this training. In the Dayton experiment random assignment was used to select the group to be trained. The reduction in the placement rate was statistically significant. The results of the Racine/Eau Clair, Wisconsin quasi experiment are particularly interesting. The study used a design in which WIN clients served after training in using TJTC as a marketing tool was initiated were compared to those who served prior to the change. Holding other characteristics constant, the WIN clients who were trained to tell employers about their TJTC eligibility were not only less likely to obtain any job, they were half as likely to obtain a TJTC certified job.

A follow up of some of the WIN clients in the experimental and control groups in Racine found that it was the WIN clients who followed instructions and brought up their eligibility when contacting employers that were least likely to find a job. Of the thirty-two reporting that they used TJTC as a marketing tool, only two (6 percent) found TJTC certified jobs. Of the 26 reporting they did not initiate discussion of their TJTC eligibility, 22 percent found TJTC certified jobs. These results suggests that if you are a welfare recipient, that announcing you are a TJTC eligible tells most prospective employers something they did not previously know, that is stygmatizing and that reduces your changes of being hired (Burtless and Cheston 1981, Moran et al 1982).

There seems to be strong evidence that signaling ones welfare recipiency has a powerful stigmatizing effect for most employers. One would not expect, however, that being a youth from a low income family would be equally stigmatizing and this presumption receives support from two studies. Nearly 900 employers were asked to review a sample of completed job applications and assign employability ratings. In both studies TJTC eligibility had a modest positive effect on the rating given and in the one with the larger sample the effect was statistically significant (Hollenbeck, 1984a; Hollenbeck and Smith, 1984).

Survey responses

There have been three surveys in which employers were asked what impact TJTC had upon their hiring. In the spring of 1980 the EOPP employer survey asked the 313 employers reporting that they hired employees subsidized by TJTC, WIN, or CETA-OJT, "Did participation in the program we just talked about influence this establishment to expand total employment by more than might otherwise have been done? Twenty-five percent of the firms said yes. They were then asked "How many additional employees were hired that wouldn't have been hired otherwise?" The total induced increase in hiring reported by the firms was 383. The total number of workers subsidized in all 313 firms was 1896 so the ratio of reported job creation to certifications was 20 percent (Bishop and Montgomery 1984).

A GAO survey of TJTC users in January 1980 asked "To what extent did the tax credit influence your decision to hire workers from targeted groups, i.e., would you have hired them anyway?" Twenty-six percent said their use of TJTC would increase employment level and 41 percent said they substituted some target hires for similar non-target workers (O'Neill 1982).

In January 1984, 100 employers who had hired one TJTC eligible in a 21 month period ending two years previously were asked "Was there ever an instance in your recollection when a tax-credit eligible individual was given hiring preference because of the tax credit over another individual who was approximately as well qualified or more highly qualified?" About 21 percent of the respondents said yes. When those firms who reported changing who they hired part of the time are given the appropriate weight, the firms reported changing who they hired about 17 percent of the time. They were also asked "Can you think of any instance when your firm decided to make an opening in the firm to take advantage of a tax credit?" About 13 percent said yes. When those who reported doing it part of the time are given an appropriate weight the proportion reporting being induced to increase employment was 7 percent. It should be noted, however, that a survey of employers who hired exactly one TJTC eligible between January, 1980 and September, 1981, it is not representative of the bulk of TJTC usage. TJTC certifications are highly concentrated.

In 1983, for instance, Pizza Hut hired 6,366 TJTC eligible employees in company owned stores. Probably 50 to 100 firms are responsible for more than half of all TJTC certifications. The firms that recruit TJTC eligibles and give reference to TJTC eligibles when they select new employees will become the biggest users of the program. Data on these big users is essential if aggregate employer response to the TJTC is to be measured. As a result surveys like the one just reported significantly understate the magnitude of the aggregate employer response to TJTC.

Econometric estimates of impact on total employment

To date there has been only one attempt at an econometric evaluation of the impact of TJTC on the employment levels of participating firms. The time period examined by this study was the very beginning of the program July 1979 through December 1979. Separate models predicting employment growth were estimated for different size establishments. TJTC had no impact on establishments with fewer than twenty employees but a large and significant impact on establishments with twenty-one to one hundred employees and an important, through not statistically significant impact on establishments with more than a hundred employees. Since most employment is in large establishments, the average (using employment shares as weights) increase in employment per subsidized worker was .3 (Bishop and Montgomery 1984).

Relative productivity of TJTC eligibles

The purpose of targeted employment subsidy programs is to induce firms to (1) hire disadvantaged workers for jobs that would otherwise have been filled by better qualified workers and (2) provide the extra training that these workers require to eventually reach the productivity standard of the other workers in the firm. If the program is achieving this purpose we would expect that when one compares subsidized and unsubsidized workers holding the same job (or controlling on the characteristics of the job and the firm) that subsidized workers would have poorer credentials, would be less productive, and would require greater than average amounts of training.

Evidence on this issue is available from the 1980 EOPP employer survey, the 1982 NCRVE/Gallup employer survey, and the 1984 NCRVE survey. In the EOPP survey employers were asked to describe a randomly selected recent hire for an unskilled or semiskilled job. If they had also recently hired a subsidized worker they were asked to give a similar description of that individual and the job that the subsidized individual filled. Multivariate models predicting the credentials and productivity of these new hires found that even when characteristics of the job and the firm were controlled subsidized new hires had less previous experience, less education, were less productive both initially and later at the time of the interview, and were more likely to quit or be dismissed. CETA-OJT workers received considerable extra training. TJTC and WIN workers did not.

Similar models run in the 1982 survey found that when the new hire was known to be eligible for subsidy when hired that productivity was 4 to 12 percent lower during the first two weeks, 2 to 6 percent lower during the next ten weeks, and 4 to 5 percent lower at the time of the interview. Depending on the model one prefers training was 0 to 13 percent higher.

In the 1984 NCRVE survey of TJTC users employers were asked "Compared to other employees with the same amount of tenure in the same or very similar job was/were the tax credit workers more or less productive?" The answers obtained were "the same"—55 percent, "more"—10 percent, and "less"—35 percent. When all these answers are averaged together the TJTC workers were about 7 percent less productive than non-TJTC workers. Probably more significant were were the reported differences in turnover. The quit rate was reported to be 41 percent for TJTC workers and 21 percent for others. The dismissal rate was reported to be 13 percent for TJTC workers compared to 8 percent for others. (Hollenbeck, 1984b.) We conclude from this evidence that TJTC is having the desired effect of inducing some firms to lower their hiring standards. The effect is very small, however. If the TJTC workers hired are turning out to be only 7 percent less productive than other workers, the 50 percent subsidy rate would seem to be too high.

Recommendations for changes in the structure of TJTC

The evidence on the cost effectiveness of TJTC is mixed. Much can be done in the area of administration to improve participation rates but, most of the incremental changes in the legislated structure of TJTC that would raise participation rates would decrease cost effectiveness. The cost effectiveness of TJTC can be defined as the tax subsidy cost of creating on full-time equivalent job. The need to reduce the federal deficit implies that amendments to TJTC should concentrate on improving its cost effectiveness. Lowering the rate of subsidy lowers cost and since the proportion of all certifications that represents a net addition to the number of jobs is not likely to decline proportionately with the decline in the subsidy, the cost effectiveness of the program will increase. The following Amendments are recommended.

The rate of the subsidy in the first year should be reduced to 25 percent. The rate of subsidy in the 2nd year should be maintained at 25 percent to encourage retention of TJTC eligibles.

The 50 percent subsidy rate would be maintained only for the disabled and ex-convicts.

The summer student tax credit should be reduced to 50 percent.

Consideration should be given to including up to $5,000 of training costs other than the time of the TJTC eligible in the subsidy base. To obtain the extra subsidy the firm would have to certify the skills taught were generally useful and the trainee would have to receive a certificate describing the skills learned.

A number of changes in how eligiblity is defined are also desirable.

Consideration should be given to substituting a low income unemployed senior citizen (over age 60 or 65) eligibility category for the SSI eligibility category. Older people are particularly sensitive to the stigma of being on welfare. This is part of the reason why only 3,115 vouchers and 1,254 certifications were issued in the SSI category in FY1983. Having a low income is not nearly as stigmatizing so such a change might increase utilization amongst the current SSI populations as well as extending coverage of other deserving individuals.

Consideration should be given to substituting a low income unemployed adult (over age 25) eligibility category for the AFDC, General assistance SSI, Ex-convict and Vietnam Veteran eligibility categories. The stigma attached to being from a low income family is less than that of being on welfare so the programs popularity with employers might increase. This change might produce a significant increase in utilization and therefore in costs.

If a complete restructuring is feasible, consideration should be given to paying the TJTC to the individual on the basis of the number of hours worked rather than paying the employer. The employer need not know and the stigma problem would not arise. This type of a program was tried experimentally and has been shown to greatly increase the employment of randomly assigned youth (Friedman and Lerman, 1983; Rivera-Casale, et al., 1982).

Recommendations for changes in the administration of TJTC

Participation in TJTC could be considerably increased if it were promoted more vigorously. If firms are approached in person it should be possible to persuade between 25 and 33 percent of those approached to participate. To this end it is recommended that:

Vocational Rehabilitation Agencies, WIN agencies and JTPA agencies should be impowered to certify eligibility.

Outreach must be increased and targeted on firms which might hire large numbers of TJTC eligibles. Administering agencies should also target firms that provide training and offer career ladder opportunities.

Employment Service offices should receive incentive payments when they certify a TJTC eligible.

Income eligibility of job seekers should be determined at the time of vouchering and not redetermined at the time of certification. Local agencies should be required to obtain verification of income reports. It is essential that the integrity of the eligibility determination process be maintained.

Welfare recipients who have vouchered should be discouraged from initiating a discussion of their eligibility with prospective employer but if asked should present the employer with the voucher.

Local agencies should be discouraged from expending resources on vouchering when a referral has not been arranged. Instead they should focus on selling the program to firms and asking these firms whether they would like TJTC eligibles to be referred to them.

Employers must be informed by local agencies as to which eligibility category the individual is in. Ex-cons make up only 5 percent of all TJTC vouchers. It is important that people in other eligibility categories be free of the stigma of being thought to possibly be an ex-convict.

Application for TJTC certification should be made no later than a day after beginning work.

Documentation of eligibility should be presented to the employment service no later than 15 days after a request for certification is made. This provision is designed to discourage employers from requesting certifications for everybody hired regardless of whether there is any prior indication of possible eligibility.

Nontargeted subsidies: the contrast

There are important lessons to be learned from the U.S. experience with employment tax credits—the New Jobs Tax Credit, the WIN Tax Credit, and the Targeted Jobs Tax Credit. There are dramatic contrasts between take up rates. In 1979, fewer than 25,000 firms received a TJTC and fewer than 10,000 received a WIN Tax Credit. In 1978, 1,100,000 firms, more than 30 percent of all the nation's employers and more than half of the eligible firms, received a New Jobs Tax Credit (NJJC), a non targeted marginal wage subsidy designed to subsidize increases in employment. A 50 percent + participation rate is remarkably high. In contrast, six years after the introduction of accelerated depreciation in 1954 only 21 percent of all proprietorships and 30 percent of all corporations were using an accelerated depreciation method on any component of their capital stock (Ture, 1967). Only 47 percent of the eligible investment put in place between 1954 and 1960 was depreciated using acclerated methods. In the first year of the asset depreciation range system only 1.4 percent of all companies and only 60 percent of the total dollars of new investment in producers durables took advantage of the shorter life time available under ADR. Use of the accelarated depreciation range system is now much greater.

The NJTC seems to have had major impacts upon the economy. In its two years of operation, the NJTC subsidized more than 4 million person years of employment. All three studies of New Jobs Tax Credit have found that it increased employment. The NFIB study (McKevitt, 1978 estimates 300,000 extra jobs by the summer of 1978, the Perloff and Wachter study (1980) 700,000 jobs in 1977 and the Bishop study estimates 150,000 to 670,000 jobs by summer of 1978 in construction and distribution alone. Bishop's study (1981) found that reductions in the margin between retail manufacturers wholesale prices induced by NJTC saved consumers between $3.8 and $7 billion.

The lesson of our recent experience with employment subsidies is that a subsidy of private sector employment will reach a scale and cost efficiency sufficient to make a real dent in structural employment, only if:

1. Employers are able to simply certify their own eligibility.
2. The behavioral responses desired of employers is obvious and simple for them to implement.
3. All or almost all employers are eligible (otherwise the result is a redistribution of who employs who).
4. Targeting is essential but it is more important to include all workers in need of help than to exclude workers that don't need the help.
5. The target group is defined by a non-stigmatizing criteria that is visible to the employer (a characteristic of the job like wage rate is better than characteristics of the worker).
6. It is marginal—paid for increases in employment above a threshold like NJTC.

OTHER OPTIONS TO BE CONSIDERED

This section of the paper presents a description and analysis of four other employment training subsidy schemes.

A. A subsidy of increases in employment

Policies that can achieve the twin objectives of stimulating employment while simultaneously reducing inflation must have the effect of significantly lowering the marginal costs of the firm's expansion and maintaining this reduction in marginal costs for a considerable period of time. In competitive markets, a reduction in marginal costs is equivalent to an outward shift of the supply curve and this inevitably results in more real output, more jobs and lower prices. In monopolistically competitive markets a reduction in marginal costs that can be counted on to last for a while will induce the firm to lower its selling price and compete more aggressively.[5] Here

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[5] The primary purpose of the subsidy of increases in employment is to induce increases in output and thereby correct the distortions produced by the prevalence of monopolistic competition (Price > marginal cost) in our economy. Its marginal character is not new. Investment tax

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again the result is more jobs, more output and lower prices. The stimulus to employment will, of course, be greatest if the subsidy of marginal costs is limited to employment costs.

If well designed, private sector employment subsidies of expansions in the employment and training of unskilled and young workers are an effective means of reducing this stagflation problem. A number of studies have come to the conclusion that employment can be increased and aggregate unemployment decreased by shifting employment demand from skilled labor markets to unskilled labor markets. Two empirical studies (Baily and Tobin, 1978; Nichols, 1980) have found that low unemployment rates in skilled labor markets have a much more powerful influence on aggregate wage inflation than unemployment rates in unskilled labor markets. When analyzed in a general equilibrium framework, it has been found that because of the minimum wage, transfer programs and high wage elasticities of labor supply by teenagers, women and low wage workers generally, a wage subsidy of unskilled labor will increase their employment without sigificantly reducing the employment of skilled workers even if the skilled workers are taxed to provide the subsidy (Bishop, 1979; Johnson, 1980).

The revenue costs of a significant reduction in the costs of increasing employment can be minimized by setting a threshold (say 1983's FUTA tax base, or aggregate hours worked by all employed in the firm) and subsidizing increases in that index of employment. A subsidy of employment above a threshold is preferred over subsidizing new hires because many firms have turnover rates of 50 to 100 percent. Subsidizing new hires quickly results in one's subsidizing the firm's entire work force. The use of either the FUTA tax base (as was done with the NJTC) or hours worked as the basis for subsidy would concentrate the subsidy on the lowest-skill jobs—exactly the segment of the labor market where labor surpluses are greatest. Such a focus is desirable because a general expansion of the economy will quickly produce shortages in certain skilled occupations and the competitive bidding for the limited number of people with needed skills that will result will rekindle inflation. The subsidy could be even more strongly focused on the least skilled by having a provision that reduces the subsidy if the firm's average wage in 1984 exceeds its 1983 wage by more than some standard amount (say 5%). Such a provision would have the further beneficial effect of putting direct downward pressure on wage inflation. Our experience with the NJTC suggests that a marginal wage subsidy of that type may promote wage inflation. This tendency can be forestalled, however, by reducing the potential tax credits of a firm if its wage increases exceed some wage increase standard. Such a subsidy can be very simple to administer. To calculate its subsidy the firm would need four numbers: total wage bill this year and in the base year and total hours worked this year and in the base year.

How such a scheme would work is most easily understood by examining a specific proposal. (The specific parameters of this proposal are illustrative.) Firms and nonprofit entities would receive a tax credit against Social Security taxes of $1.00 per hour for every by which total hours worked (including those worked by salaried management) at the firm in 1985 exceed total hours worked in 1984.[6] A tax credit would also be provided in 1986 for increases in total hours worked over the higher of 1985 or 1984's hours worked. In 1987, the tax credit would be for increases in total hours worked over the highest of 1986, 1985, or 1984 hours worked. The tax credit would be reduced if the firm's average wage (calculated by dividing total compensation by total hours worked) in 1985 was more than 5 percent greater than its 1984 wage. The threshold for the wage increase "take back" might be 10 percent in 1986 and 15 percent in 1987.

A general formula for the tax credit is

$$TC = s_i H_{it} - u_i (W_{it} - GW_o) H_{it}$$

subject to the constraint that $TC > 0$ and $_i (W_{it} - gW_o)(H_{it} > 0$

where H_{it} = hours worked by people in the ith job during time period t

H_{it} = growth of employment in the ith job above the threshold

W_{it} = hourly wage rate of the ith job in time period t

W_o = the firm's average wage in the base period

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credits and liberalizations of depreciation rules that are not retroactively available to already installed capital equipment have had the effect of lowering the long run marginal cost of many products below the prices that prevailed at the time of the tax change.

[6] To insure that the employer was at least aware of the tax credit at the time employment decisions are being made, preliminary application for it would have to be made by July 1, of the calendar year for which subsidy is requested.

s = hourly tax credit
g = wage growth standard, $g > 1$
u = take back rate

An increase in the wage rate is taxed at the rate u. This discourages wage increases above the standard. An expansion of hours that leaves the composition of employment unchanged is subsidized at the rate of s dollars per hour. Where expansions are not proportional and the firm is in the take back region, the tax benefit depends upon the wage rate of the jobs that are expanded:

$$dTC/dH = s - u(W_{it} - GW_o)$$

If, for instance, s = \$1 per hour, u = 0.1, and gWo = \$8.00 an hour, offering an additional job paying \$4.00 an hour would generate a tax credit of \$1.40 per hour, expanding a job paying \$12.00 would generate a credit of \$0.60 an hour, and expanding a job paying \$18.00 an hour would generate no credit.

This type of a marginal employment subsidy has a number of attractive features:

1. Firms are encouraged to increase employment by hiring inexperienced workers and training them rather than by increasing overtime work or bidding experienced workers away from other firms by raising wages.
2. Within each firm it tends to target the employment stimulus on the least skilled workers. (This occurs because hiring extra low wage workers lowers the average wage of the firm, and this helps the firm meet the 6 percent wage increase standard.) The increase in demand at the unskilled end of the labor market should produce large reductions in the unemployment of youth and the disadvantaged.
3. Targeting on less skilled workers is accomplished without giving low wage firms a proportionately larger subsidy.
4. Firms are encouraged to slow the rate at which they increase wage rates.
5. Both marginal and average costs of production are reduced, while simultaneously, wage increases above the standard are taxed. Penalty tax incentive based income policies (TIP's) in contrast, have the disadvantage of raising marginal and average costs, and therefore, prices of firms that violate the wage standard (Seidman 1978 and Dildine and Sunley 1978).

It is a balanced anti-inflation program. The subsidy component lowers price inflation and the wage increase "take back" lowers wage inflation.

B. The reemployment voucher

The re-employment voucher proposed in Amendment #518 to HR 1900 offers a worker the option of using his entitlement to Federal extended unemployment insurance benefits as a job subsidy rather than as income maintenance. It has some attractive features:

The voucher can be used to subsidize any job whether it is at a for profit or a not-for-profit organization and regardless of whether the employer has a positive tax liability.

It seems to be simple for the employer to administer.

Worker eligibility is defined by characteristic (being unemployed for six months) that is already known by the employer. Hence if a job seeker advertises his eligibility for the voucher, it should not have the effect of stigmatizing him/her any more than they already are stigmatized by virtue of the long-term unemployment.

The size of the voucher payment is related to how long the individual works at the new firm.

The job-seekers previous employers are ineligible for the voucher—not excluding them would have produced an incentive to lay off workers with plans to rehire them six months later.

Payments are made to the firm almost immediately after hiring the worker, reducing the working capital needed to expand employment.

It should be noted that most of the long-term unemployed will not be eligible for this voucher. Many of the long-term unemployed are not receiving UI because prior to their current spell of unemployment they worked for too short a period of time in covered employment. Only about half of all unemployed workers are currently receiving UI. Others will be ineligible because they will not hear of the program's existence in the one month period they have to sign up for it.

Participation amongst eligibles

Since the legislation does not require the job seeker to give up his UI eligibility before finding a job, there are two ways a job seeker can get a subsidized job. He/

she can get the job first and then apply for the voucher (this must be done before or during the one month period of eligibility), or he/she can apply for the voucher (temporarily giving up the supplementary UI benefits) in the hope of finding a job. I would not expect this latter mechanism to be very important. The reason is that participation requires a positive act on the part of the job seeker in which he or she temporarily sacrifices next week's UI payment in hopes of quickly getting a job because of the subsidy. If the job search with voucher in hand is unsuccessful, he or she can get their supplementary UI benefits later, but since most people unemployed for six months or more have severe cash flow problems, many will not be able to afford a one or two month period of no UI benefits, especially when the Out-of-pocket costs of job search are higher because of the increased search intensity.[7]

A second reason for not expecting many eligibles to choose the voucher without already having arranged a job is that job seekers seem to be averse to announcing to prospective employers that they are on "sale", i.e., can be obtained cheaper. This has been reported by counselors who deal with TJTC eligibles. It may be for a good reason, because two experiments in which TJTC eligibles were taught to use their eligibility for TJTC as a selling point in their job search (one in Dayton, Ohio, the other in Wisconsin) have found that TJTC eligibles randomly assigned to be trained to mention the TJTC were less likely to find a job than other TJTC eligibles. The reason that advertising one's TJTC eligibility seems to have this effect is that announcing one's eligibility tells the prospective employer something—I am a welfare recipient, from a low income family, or an ex-con, etc.—that in most cases the employer did not know before and that stigmatizes the job seeker. Presumably, the voucher for being unemployed long enough to receive supplementary UI will not have the same effect, but one cannot be sure.

If participation is to reach a reasonable level, it will require initiative on the part of the employer or a labor market intermediary. One can envision an employer putting in a job order at the Employment Service (ES), "I have x jobs for people who have recently become eligible for Federal supplementary payments. They do not have to have chosen the voucher yet, only be eligible to choose the voucher". If the ES cooperates with such requests, the firm's costs of finding eligible workers will be low. The firm can offer the job to the eligible job applicant it feels is most qualified on the condition that the person apply for the voucher.

An alternative mechanism that does not require the firm to request referrals from the ES (70 percent of firms with vacancies do not ask for referrals from the ES) would be for it to screen job applications searching for people who have been out of work the required amount of time (e.g., 5 to 7 months), and then ask those who seem to be eligible for the voucher when their regular UI will be or was exhausted. The firm would select from among the eligibles and offer the job on the condition that the applicant apply for the voucher. If an attractive job candidate is not yet but soon will be eligible, it would seem likely that the applicant will be told to return when he/she is eligible. If this candidate is particularly well qualified and the firm does not expect future openings, the voucher might cause a firm to postpone filling a vacancy until the not yet eligible job applicant becomes eligible.

The example just discussed illustrates one of the problems that arise from targeting a benefit on people unemployed for a particular period of time. Even if the voucher does not cause a firm to hold a particular job open while waiting for the preferred candidate to become eligible, its main effect will be to change who is hired, not increase total employment. Senator Quayle acknowledges that "the amendment will not overcome low demand for workers, but it will target employment to the long-term unemployed". The designers of the voucher scheme have set their sights too low. The objective should be increasing total employment and reducing unemployment without rekindling inflation, not just redistributing the pain of unemployment. Any governmental intervention in the labor market involves some cost and some distortions. If one must incur these costs, they need to be justified by benefits to one job seeker that are not offset by losses to other job seekers.

C. *Marginal training subsidy*

A marginal training subsidy (MTS) would offer a partial subsidy of training expenditures above a threshold level. The rate of subsidy or tax credit would be set somewhere between 10 and 30 percent. The training costs that would be eligible for subsidy would include payments to industry training funds, tuition reimbursements for job related training, contributions of materials or staff time to vocational/technical institutions, the budgeted costs of the firm's formal training of new and continuing employees, and certain of the costs of informal training of new and upgraded employees.[8] Participating companies with more than 100 employees would be required to have a training advisory committee that contains worker representation.

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[7] An important feature that is not specified in the legislation is whether if job search is unsuccessful the supplementary UI payments are retroactive payments for the period of unsuccessful job search, or whether they are extended eligibility for payment for the weeks of job search following the request for the UI payment. The former is to be preferred.

While the measurement of the costs of informal training is difficult, it must be attempted if choices between formal and informal training are not to be distorted.[9] The subsidizable costs of informal training would be limited to trainee time and trainer time during the first year of employment or during the first 3 months before or after a major promotion and change in job responsibility. If the training is formal, certain additional expenses—books and material, rental on teaching machines and equipment or office space dedicated entirely to training, and payments to training vendors—would be eligible for subsidy. Formal training would be subsidizable regardless of length of tenure and whether the worker is receiving a promotion. At the conclusion of the training program or the firm's fiscal year, the employer would be required to award each trainee a certificate describing the number of hours of formal or informal training provided/attended, skills taught and where appropriate, the competence achieved.

The threshold which must be exceeded before a subsidy or tax credit would be paid would be equal to 10 percent of the firm or establishments wage payments to employees with less than one year of tenure at the firm plus 1.5 percent of wage payments to all other employees. The threshold is higher for firms with many new employees because (a) new employees tend to receive more training than continuing employees and (b) the costs of informal training are subsidizable only during the first year on the job and for a short period before and after a promotion.

A subsidy above a threshold has some important advantages over an obligation to spend a minimum amount on training:

> Firms that are big trainers (and therefore probably efficient trainers) of skilled workers would always face an incentive to expand their training.
>
> In France where an obligation to spend a minimum amount on training is in operation, the great majority of French employees work at firms which exceed their obligation to spend on training so at the margin, there is no public encouragement of additional training for the majority of French workers. A subsidy above a threshold avoids this problem.
>
> Paperwork is reduced because most firms would not apply for a subsidy in most years. Year-to-year variations in training expenditures are likely to be large at small firms. Such firms would most likely spend above the threshold only in years in which there is a major expansion of employment or the installation of new equipment.
>
> Employers who feel the administrative burdens of the subsidy are too high, are free not to participate.

All employers—profit making, non-profit and governmental—should be eligible for the marginal training subsidy if their training expenditures exceed the threshold defined for their organization.[10] In order for incentive effects to be maximized, employers must feel they are assured subsidy payment if they increase their firm's training investment. Together these two considerations imply that the MTS should be administered either as a subsidy entitlement, as a tax credit against a broad based tax on the firm's wage bill like FUTA or social security, or a tax credit against income taxes that can be sold to other firms.[11] The MTS would be financed either out of general revenue or a special training tax on the wage bill of all employers. In order to give firms time to set up the accounting procedures to record training expenditures, it would be phased in at least a year after the legislation is passed.

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[8] To insure that ony training gets subsidized/not vacations or motivational sales meetings, subsidizable expenditures might be defined to exclude (1) travel to a remote site other than the company's national or the appropriate regional headquarters, (2) housing and food expenses of more than $100 a day, (3) costs of training non-employees, part time employees working less than 50 hours a month or employees for whom more than 50 percent of compensation comes from commissions, (4) payments to speakers or presenters of a training session of more than $100 or $200 per contact hour which ever is higher. The costs of developing a training package or system for use in training ones own staff would be an allowable expense.

[9] A trainee would be considered to be engaged in formal or informal training if he is receiving group instruction, being instructed by a computer, reading manuals or instruction booklets watching others of the work or being shown the work. A trainer, supervisor or coworkers time would be considered to be engaged in a training activity only if 100% of the trainers attention is devoted to the training purpose. If any output is produced during a training activity it would have to be given to the trainee, discarded or given away. The following tests could be used to define a promotion for purposes of calculating subsidizable training expenses: there would have to be a new job title, noticeably different job duties and a wage increase of at least 6% above the standard seniority or cost of living increment and the individual could not have held that particular job before. In order for new employee training to be subsidizable it would have to be associated with a wage increase by the end of that year off at least 10 percent over and above the rise in the cost of living.

[10] To insure that employers who receive an MTS subsidy were aware of the program at the time it might influence their behavior, it could be required that the employees make a preliminary application before July 1 of the calendar year for which a subsidy is sought.

The MTS has a number of important advantages:

> The social benefits of on-the-job training are probably just as large as the social benefits of occupationally specific training provided by schools. The MTS would create an incentive for firms and workers to generate more of such benefits and would reduce currently prevailing distortions of the choice between these two modes of providing occupationally specific training.
>
> Since the employer pays 67 to 90 percent of the cost of training, there is always an incentive to do the training in the most efficient manner possible.
>
> Choice of which jobs to train for and how to do the training is made by the employer not by an educator, a government bureaucrat or by the trainee. The employer is the person best able to project the firm's future need for skilled workers and to select the best method of training for those skills.
>
> The inclusion of the costs of informal training in the definition of subsidizable training expenses is fair to small business and avoids distorting choices between formal and informal training.
>
> While the MTS is not directly targeted on the unemployed dislocated worker, it will reduce unemployment nevertheless, and would do so more efficiently than a targeted program like an ITA or the reemployment voucher. The MTS reduces unemployment in two ways:
>
> > It encourages firms to hire and train new workers; and to retrain rather than lay-off workers whose skills were becoming obsolete.
> >
> > It encourages the firm to expand the supply of skilled workers rather than engaging in bidding war for the limited supply of already trained workers thus producing an acceleration of inflation.
>
> The MTS should discourage turnover. A firm with high rates of turnover will have a higher threshold and will as a result receive a smaller subsidy payment.

The MTS has as its objective expansion and intensification of on-the-job training. Only two small reforms of current practice are proposed—training advisory committees at firms with more than 100 employees and providing the trainee a certificate describing the training that has been received.[12] All the really important decisions—who is to be trained, what is to be taught, and how it is to be taught—are made by the employer and the worker (the workers influence these decisions through representation on the training committee, by bidding for jobs that require training, by selecting an employer who provides the desired training, and the commitment that is given to learning the material that is presented).

Employers and workers probably invest nearly $100 billion of time and resources in formal and informal on-the-job training each year. Consequently, covering all employers and all kinds of training inevitably means costs can be kept down only if the subsidy rate is set rather low, the definition of subsidizable expenditure is restrictive and the threshold is set rather high.

D. A critical skills training incentive

An alternative approach to promoting more private investment in on-the-job training is to target certain critical occupations that are experiencing severe shortages. A subsidy would be offered for training newly hired and/or transferred employees in a few selected occupations.

Selecting skills for which to provide training incentive

Legislation would restrict the subsidy to a limited number of industries that currently export a major share of their output, or are service firms that provide specialized high tech services.[13] To be eligible for a training subsidy, an occupation/skill would have to involve considerable initial on-the-job training, be required at many firms, and be in shortage. The determination of whether an occupation is in shortage would be based on current data on changes in relative wage rates, changes in vacancy rates or newspaper advertising if available, and on recent and projected growth of demand for the skill.[14] The Department of Labor would be given a fixed budget and empowered to select a limited number of skilled jobs for which training subsidies would be available.

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[11] If the MTS is a subsidy, subsidy payments would be taxable income. If the MTS is a tax credit the firm would have to reduce its reported social security or FUTA tax payments by the amount of th tax credit.

[12] To the extent that the accounting rules used to distinguish training activities from production activities affect the way training is conducted this is an unfortunate unintended consequence of the necessity of defining a dollar quantity of training expenditure for each firm.

Once an occupation had been selected as a potential candidate for subsidy the Secretary of Labor would appoint an industry/labor committee to make recommendations regarding the definition of the critical skill, the competencies that a trained individual would be expected to have, and possible mechanisms to insure that subsidized trainees achieve these standards. The Department of Labor would do a small survey of the costs of training and the length of the training period that would serve as a basis for calculations for median training cost.[15] The Secretary of Labor would be empowered to make competency certification (under the auspices of a multi-employer or union umbrella organization) a part of the mechanism for defining eligibility for a critical skills training subsidy.[16]

Administration of the training incentive

Application for a subsidy of a particular trainee must be made within one week of the start of the training (within one week of the date of beginning work in the case of a new hire).[17] The requirement of immediate application for the training subsidy

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[13] Examples might be communications, machinery, instruments, chemicals, pharmaceuticals, electronics, computer service and R & D laboratories.

[14] For a skill to be eligible, both recent and projected rates of growth would have to be high. Projections of future growth should be based on a methodology that can be updated on a quarterly basis and that uses contemporaneous market signals (such as current or forward prices of the industry's product, new orders, current industry sales or employment) to project future employment. The methodology must be capable of giving timely warning of industry turn arounds like the one that occurred in 1981 in oil drilling and exploration. A projection of rapid growth would be sufficient on its own (in the absense of high past rates of growth) only if the evidence is particularly strong (e.g. Congressional passage of obligational authority for a huge multi year contract). Where classroom training at schools or colleges substitutes for OJT, information on the number of graduates of such programs (recent and projected) would have to be compared to growth of demand.

[15] The survey would not be very costly and would not take long, once a sample of employers who have trained such workers was obtained. While visits to establishments by specialized staff would be the preferred mechanism, it could be done over the phone. A telephone interview approach to measuring on-the-job training costs for specific jobs has been developed by the National Center for Research in Vocational Education and implemented by the Gallup Organization at a cost of less than $75 per interview. The training costs that would be measured by this survey would include:

(1) payments to outside vendors such as a training institution,

(2) depreciation on machinery 100 percent devoted to training,

(3) time of specialized training personnel that is spent in contact with the trainee or preparing lessons,

(4) time of supervisors or coworkers spent giving formal or informal training to the nonworker above a 40 hour minimum,

(5) time of the trainee that is spent in a formal or informal training activity that is not directly productive.

The survey would also serve as a basis for developing an operational definition of the job or skill for which training subsidies would be provided, and for the levels of the skills. The results of the survey would be reviewed by DOL staff and the industry/labor committee. DOL staff would make a formal recommendation to the Secretary which the advisory committee could endorse or take exception to as it wished. Training costs allowed in future years would be indexed to the economy's average hourly wage, so the survey would only need to be done once.

[16] Systems for competency certification currently exists in construction, telecommunications, banking and a variety of other industries. In some industries and occupations, an existing system(s) could be adopted "as is" or modified; in other industries and occupations a new system would have to be developed. Since an occupation is eligible for a critical skills training subsidy for only a limited period, a judgement would have to be made as to whether the benefits of competency certification would outweigh the inevitable costs and delays that such a requirement would impose. In addition, in certain fast changing fields codifying what must be learned in this way might not be desirable. There would be an expectation that the organization sponsoring the competency certification would continue the service after the end of the period of the occupation's eligibility for CSTI. Conditioning the CSTI on the existence of competency certification would tend to encourage industry groups seeking designation of one of their job/skills as a critical skill to create a certification process for that job.

[17] The application form could be quite simple, requiring only the name and social security number of the trainee, employer ID number, the training establishment's name and address, the

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has three purposes: (1) by forcing the firm to be aware of the subsidy when it begins the training, it maximizes the subsidy's incentive effect and reduces retroactivity, (2) it allows DOL to continuously monitor the number of trainees its program has stimulated, and to project future costs and the fulfillment of its goals, (3) for the firm it locks in the terms and conditions of subsidy that prevailed at the date training was commenced. If DOL determines that more (less) training is being undertaken than needed or was budgeted, it has the right without advance notice to restrict (liberalize) the definition of subsidizable jobs/skills, lower (raise) the training cost allowance or end that occupation's eligibility. Changes in rules would apply to all training programs begun one week or more after the announcement of the change.

There would be no limit to the number of trainees for which an employer could be subsidized, and the firm would not have to obtain advance agreement from DOL as to this number. The employer would only have to certify (1) that the training provided results in the worker's attaining the critical skill, and (2) that the trainees did not have that skill prior to the training. This certification would be audited on a random basis.[18] Workers who complete training would be awarded a certificate attesting to the skills they have achieved. The skills taught by the training program would be described in detail either on the back of the certificate or on an attachment.

The administration of this Critical Skills Training Incentive has been described in considerable detail for several reasons:

The popularity of the program with employers will depend upon how easy it is for them to administer it.

The power of the incentives it produces and the cost of the program may depend upon seemingly minor administrative matters (such as when application for subsidy must be made),

The primary concern about proposals such as this is whether they can be administered, so there needs to be a demonstration of the feasibility of the program.

The plan described has a number of attractive features:

It is limited in scope to occupations in critical shortage.

Great flexibility is given to program administrators. (This is essential because the very concept of the program is new and because it must quickly respond to the changing needs of the economy.)

Workers who complete training are awarded a certificate that describes the skills they have gained.

The firm always faces a marginal incentive to expand its training of targeted skills. (It does not have to get prior agreement from DOL about how many people to train an administrative hassel that would be a major barrier to participation.)

The firm is given an incentive to retain the workers it trains.

Despite the almost 'entitlement' nature of the training subsidy, its total cost is capped by the monitoring of usage and DOL's ability to lower subsidy amounts and tighten eligibility.

A sunset provision automatically ends a skill's eligibility for subsidy.

Cost could be further reduced by requiring that firms already employing people in the targeted skilled occupations exceed a given level of training before being eligible for subsidy. It could be assumed that in the normal course of events such firms would have to replace 10 percent of their stock of workers with the targeted skills anyway. The subsidy could be paid for trainees above this threshold.

It complements the Subsidy of Increases in Employment described in the first section.

The firms administrative costs are kept low. The firm does not have to calculate and report how much it is spending on training.

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firm's name and address, the skill for which training is being provided, the trainee's wage, and a description of the job (including its wage) for which he/she is being trained.

[18] An advance opinion as to the eligibility of a proposed training program (binding on DOL) would be available to employers who request it. The calculated amount of subsidy would be paid in equal semiannual installments over the training period that has been established for that skill. If the worker is employed at the firm for less than the full training period, the subsidy payment would be prorationed for the period he/she was at the firm. The payments would be taxable income. Training establishments would submit semi-annual bills to DOL for the subsidy payments due to it. The payment would be made to the training establishment firm because auditing would be carried out at the establishment level, and because the payment then shows up in the right place in multi-establishment firms with divisional profit centers.

Eligibility for subsidy is a function of an output—the number of people trained for certain specific jobs—not a measure of input. This creates a strong incentive to be as efficient as possible in doing the training.

The Critical Skills Training Incentive has some important drawbacks, however. Its success depends upon the wisdom and timeliness of the selection of skills for which training subsidy is provided. Experience with federally funded graduate fellowships should remind us how difficult it is for government to forecast future demand for a specific skill and implement decisions to extend or withdraw training subsidies in a timely manner. Graduate fellowships were originally targeted on a few shortage fields thought to be critical to national defense. However, other fields campaigned to be included and new programs were started until almost every field of study was included in at least one agency's fellowship program. The number of fellowships expanded even after the shortages of PhD holders that gave rise to the programs were replaced by surpluses. The CSTI has features—the sunset provision, great administrative flexibility and a fixed budget—that are intended to prevent a recurrence of the poor timing that characterized the graduate fellowships programs. There is always the possibility, however, that the projections of future demand will be wrong or that politics will result in the wrong occupations being selected and that the selective nature of the training incentive would increase rather than decrease market distortions.

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Chairman **Stark**. Thank you very much.

We will go on to Ms. Patricia Goodall of the Rehabilitation Research and Training Center, Virginia Commonwealth University.

I have your testimony, Ms. Goodall, and if you would like to summarize it or add to it, you may proceed in any manner you desire.

STATEMENT OF PATRICIA A. GOODALL, TRAINING ASSOCIATE, REHABILITATION RESEARCH AND TRAINING CENTER, VIRGINIA COMMONWEALTH UNIVERSITY

Ms. **Goodall**. Mr. Chairman, I am with the Virginia Commonwealth University Rehabilitation Research and Training Center in Richmond, VA. The center is funded by a grant from the National Institute of Handicapped Research of the U.S. Department of Education.

The mission of our center is to provide research and training related to the employment of mentally retarded individuals. We are also directly involved in the placement and training of mentally retarded adults into competitive employment.

Under previous State and Federal funds, we have placed approximately 150 mentally retarded citizens into 215 competitive jobs in the community over the past 5 years. As the person responsible for job development in the community, I can emphatically state that the Federal Targeted Jobs Tax Credit Program has greatly affected our success in approaching employers to hire the handicapped.

The availability of the Federal tax credit for employers who hire the handicapped is an extremely powerful incentive to businesses in the community to try out a handicapped worker. Many employers are hesitant to work with the handicapped, but the TJTC provides them with the financial motivation to give it a try. Once the handicapped worker has shown that he or she is able to do the job, the employer has most often become a satisfied advocate of hiring the handicapped. Ultimately, the use of the TJTC as a persuasive tool allows us to more easily and successfully place handicapped workers in the community.

The bottom line in this is that we are able to take disabled persons off Federal disability payments and other tax-related services such as rehab services and adult activity centers. Of the 150 retarded adults that we have placed into jobs, nearly all have been recipients of some type of Federal assistance such as SSI or what have you.

I have a scenario here, but that will be submitted into the record. I am trying to cut this short.

Traditionally, the individuals that we work with, the moderately and severely mentally retarded, have been considered unemployable, not only by employers in the community but also by educators and rehab people as well, and we are just now beginning to prove to people that the more severely disabled are able to hold competitive jobs in our community.

I would like to urge the tax credit be expanded, not just for 1 year, because I believe that the attitudes of employers cannot be changed in 1 year. I have seen some change over the past 5 years, when we first started placing handicapped people into jobs, but I think we really need as much time as possible.

Chairman STARK. Do your statistics indicate that the handicapped have any longer job tenure than the average we are finding, which is 4 months or less? I mean, are about half of the handicapped youngsters going into seasonal employment, as was indicated by the rest of the program, or are you finding they are having more long-term employment?

Ms. GOODALL. I have an overall retention rate for all the people that we have placed, and that is about 50 percent, and that goes all the way back to 1978.

Chairman STARK. What kinds of jobs are you placing them in?

Ms. GOODALL. Traditionally, we have been focusing in on food service and janitorial service jobs because there is a lot of turnover. The jobs that we need are in that kind of area.

In closing, I would just like to thank you for the opportunity to advocate for the extension of this important program. Should the program expire, or even if it only goes for 1 more year, I believe that the handicapped worker will ultimately suffer, and in turn, the taxpayer will bear the consequences.

[The prepared statement follows:]

REHABILITATION AND RESEARCH TRAINING CENTER,
VIRGINIA COMMONWEALTH UNIVERSITY,
Richmond, VA, April 5, 1984.

Congressman FORTNEY H. "PETE" STARK,
Chairman, Subcommittee on Select Revenue Measures, House of Representatives, Longworth House Office Building, Washington, DC.

MR. CHAIRMAN: I am with the Virginia Commonwealth University Rehabilitation Research and Training Center in Richmond, Virginia. The Center is funded by a grant from the National Institute of Handicapped Research of the U.S. Department of Education. The mission of the Center is to provide research and training related to employment of mentally retarded individuals. We are also directly involved in the placement and training of mentally retarded adults into competitive employment.

Under previous state and federal funds, we have placed approximately 150 mentally retarded citizens into 215 competitive jobs in the community over the past five years. As the person responsible for job development in the community, I can emphatically state that the federal Targeted Jobs Tax Credit (TJTC) program has greatly affected our success in approaching employers to hire the handicapped.

The availability of the federal tax credit for employers who hire the handicapped is an extremely powerful incentive to businesses in the community to try out a handicapped worker. Many employers are hesitant to work with the handicapped, but the TJTC provides them with the financial motivation to give it a try. Once the handicapped worker has shown that he or is able to do the job, the employer has most often become a satisfied advocate of hiring the handicapped. Ultimately, the use of the TJTC as a persuasive tool allows us to more easily and successfully place handicapped workers in the community.

As this federal tax credit program becomes more widely recognized in the business community, we frequently encounter employers who specifically request TJTC eligible employees. In fact, we know many employers who preferentially hire TJTC eligible candidates.

This, in turn, results in a decrease in the number of disabled person who are considered a tax burden on the public through federal disability payments and other related tax-support services (such as rehabilitative services and adult activity centers). Of the 150 mentally retarded individual we have placed into competitive employment, nearly all have been recipients of some type of federal assistance.

I believe that our Center's experiences with the use of the federal TJTC program in the competitive employment of mentally retarded persons is representative of similar programs in the state of Virginia and throughout the entire nation (see attached statistical information). The following is a typical scenario describing the job placement of a severely disabled/mentally retarded individual.

Joe is 26 years old and moderately mentally retarded. Since he graduated from a special education program at age 22, he has attended an adult activity center where he engaged in such tasks as folding and inserting into envelopes, collating, and assembly work, as well as social and leisure activities.

When Joe was taken to a job interview for a pot scrubbing position in a local restaurant, the employer was skeptical that Joe could handle the job. Although we felt that Joe could be trained to perform the job successfully, he possessed few related work skills and was not a strong candidate for the position. The employer was persuaded to give Joe a try in the position when he learned about the availability of the TJTC. In effect, during a extended "trial" period, the company receives a federal tax credit on the disabled worker's wages. This arrangement offset the risk the employer felt he was taking when he hired the mentally retarded young man.

Joe is presently entering his third year of employment as a pot scrubber. He no longer receives federal disability payments and is, in fact, the primary wage earner in his household. Joe performs his job competently and both he and his employer are satisfied with the employment situation.

Traditionally, mentally retarded individuals like Joe had little or no chance of landing a job in the competitive market. The federal TJTC program provides the leverage necessary to help these workers gain entry into competitive jobs. As more and more handicapped individual like Joe are given the chance to prove themselves as capable workers, the full effect of the TJTC will have been to change the business community's attitude toward hiring the disabled. This process has only just begun.

I would like to thank you for the opportunity to advocate for the extension of the federal Targeted Jobs Tax Credit progam which expires December, 1984. Should this program expire, I believe that the handicapped worker will ultimately suffer; in turn, the tax payer will be called upon to bear the consequences.

Sincerely,

Patricia A. Goodall, *Training Associate.*

TARGETED JOBS TAX CREDIT INFORMATION

Obtained via personal communication with David Robison, 48 "G" SW, Washington, DC 20024; (202) 646-1566. Mr. Robison is associated with a group that is doing some congressional lobbying in favor of the extension of the TJTC. The group is: Committee for Employment Opportunities, 1101 Connecticut Ave. NW, 5th Floor, Washington, DC 20036.

Statistical information for 1983 fiscal year ending 9/30/83

Total TJTC nationwide for every eligibility group:	
Voucher issued	1,286,947
Certificates issued	431,182
Nationwide for the handicapped group:	
Vouchers	78,683
Certificates	25,412

The state of Virginia is in Region III, which consists of Delaware, District of Columbia, Maryland, Pennsylvania, West Virginia, and Virginia.

Totals for the region:	
Vouchers	115,786
Certificates	36,776
Handicapped:	
Vouchers	8,331
Certificates	2,482
Totals for Virginia:	
Vouchers	33,203
Certificates	10,340
Handicapped:	
Vouchers	2,168
Certificates	822
By other groups (certificates):	
Youth (60 percent of total)	6,536
Veterans	453
Ex-Convicts	724
Handicapped	822
CETA	4
General Assistance	34
SSI recipients	14
AFDC recipients	1,161
Summer Youth	592

Virginia has less than one-third of the total vouchers issued for the Region, but has almost one-third of the certificates issued. Virginia has a better percentage of vouchers that become certificates than any other state in the Region.

Chairman **Stark**. Thank you very much, Ms. Goodall.

I suspect that yours is an area where the program may be doing its most good. But until we get responsible studies, we may never know.

Thank you very much.

Ms. **Goodall**. May I add one more statement?

Chairman **Stark**. Sure.

Ms. **Goodall**. In response to your suggestion that perhaps we could make the first year 25 percent and the second year 50 percent, our research division is just now studying all of the data that we have generated over the past 5 years, and tentatively, I am able to say that it seems like the most critical time period for the handicapped is the first 6 months.

Chairman **Stark**. When do the handicapped lose their ability to go back on SSI?

Ms. GOODALL. Well, they have a 9-month trial period; then it is another 3 months——

Chairman STARK. Nine months. Is that long enough? I have tried to extend it.

Ms. GOODALL. It should be longer. We run into a lot of instances where the families will pull them out of a job with benefits just because they are so terrified of losing the SSI check.

Chairman STARK. That they will have to wait? How long does it take them, then, to get back in?

Ms. GOODALL. Well, I think the newest law now says that there is an automatic 2-year reentitlement.

Chairman STARK. Right.

Ms. GOODALL. That has been progress. That seems to satisfy——

Chairman STARK. So that means they could go back on, is that correct?

Ms. GOODALL. Within 2 years, without having to go through all the reeligibility procedures and all that.

Chairman STARK. Does that make them more inclined—does that take away some of the fear of losing those benefits?

Ms. GOODALL. Yes.

Chairman STARK. I mean, that is what we intended when we changed that law. It was in a different committee than this. They are all welfare committees; we just move the decimal points back or forth, depending on whom we are providing welfare for.

Ms. GOODALL. I think the biggest problem that we have run into, though, again—I heard it mentioned here earlier—is the health benefits. You know, when they lose that, they——

Chairman STARK. If they don't pick it up in their other job, and that is most often not the case? I mean, do you find most jobs do not provide——

Ms. GOODALL. We try to find full-time jobs with benefits, but some people can only work part time, or a lot of companies just don't offer benefits, and when we sit down and figure it out, earning minimum wage and having to pay health insurance, they really aren't better off.

Chairman STARK. They can't pay for it with minimum wage after deductions, can they?

Ms. GOODALL. No.

Chairman STARK. Unless you are getting it from a veterinarian, it just hardly pays, and that is one of the problems that needs to be addressed.

Thank you very much.

The next panel consists of Mr. Paul Egan of the American Legion; Mr. Willis Ethridge of the National Association for the Deaf; Sister Judith Schloegel of the Liberation of Ex-Offenders Through Employment Opportunities; and Paul Suplizio, the Washington representative of the Targeted Jobs Tax Credit Coalition.

I will admonish the witnesses, you all, I am sure, heard our interest in moving along so that we can give everybody a chance to testify before we are ordered to duty in the full committee.

Mr. Egan, do you want to proceed?

STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION

Mr. EGAN. Thank you very much, Mr. Chairman.

As currently provided in the tax credit program, a veteran is eligible if three criteria are fulfilled. Such veterans must have served during the Vietnam era, must be economically disadvantaged, and the family income of the veteran at the time of certification for participation must not exceed 70 percent of the established poverty level.

There are several good reasons why veterans have been included in this program since its enactment in 1978. Veterans returning to civilian life after having served the Nation during its most contentious conflict have sustained severe economic readjustment problems. Many of these problems have been clearly different from those of veterans having served in previous wars. GI bill education benefits have been less generous, for example, often delaying the veteran's normal course to completion of education or training.

Even those veterans having completed their training following service, however, have had difficulty competing in the job market with their nonveteran peers. This is precisely because, but for their service, they would have completed training between 2 to 4 years earlier and entered the job market at a more favorable time.

Hence, the veteran has become susceptible to downturns in the general economy, more so than the nonveteran. When such downturns occur, the veteran is the last hired; and he is often the first fired or laid off.

Other readjustment problems unique to Vietnam veterans have also created economic disadvantages. The special psychological problems being treated at VA storefront "Vet Centers" often coexist with employment problems. In fact, the complaints most often heard from these veterans are job related, many having dropped out of both the social and economic mainstream and are simply not job ready.

It is specifically these veterans who can and have benefited from the TJTC program. To date it is unclear why, but the veteran usage of TJTC has risen steeply. According to the Department of Labor, certifications for veterans in 1982 numbered 13,272. The following year, that number rose by almost 100 percent to 24,141.

In the first quarter of 1984, Labor reports certifications increasing at an even greater pace than in 1983. If utilization is a good reason to reauthorize the program—and we believe that it is—then the program should be reauthorized.

Mr. Chairman, today there are a variety of programs, all of them modest, available to veterans designed to assist in economic readjustment. However, it must be understood that each of these programs has been specifically tailored to meet the specific needs of veterans with specific problems. TJTC is unlike any of the others and constitutes a very important part of an overall package of veterans employment programs.

We believe this program, unlike any others, serves as a significant stepping stone for veterans who might otherwise become just another segment of the structurally unemployed. This again, in our judgment, constitutes good enough reason to reauthorize the program.

There is a question the answer to which the committee may wish to have in order to justify reauthorization of this program: Do veterans having received jobs under the program retain these jobs once the tax credit has been exhausted? While we have no answer to this question, it is appropriate to recognize that even if the veteran leaves his job after 2 years or less, he or she will have been granted an opportunity to establish reliable work habits and job confidence sufficient to move ahead to higher paying and more responsible employment.

One final good reason to reauthorize this program is its function as a recession relief program. Even though it is unclear exactly why certifications for veterans rose between 1983 and 1984 by nearly 100 percent, it is likely that at least one reason for the increase stems from the economic dislocation of so many during the most recent, and perhaps most severe, recession since World War II.

Assuming this is partially true, the Federal Government had to have saved millions of dollars it would otherwise have spent in relief programs and assistance.

Even though there are some improvements which might well better the programs, improvements enumerated in our full statement, we must note that the currently pending Senate version of deficit reduction legislation contains the Heinz amendment allowing only a 3-year reauthorization.

Given the fact that the House version of the same package contains no reauthorization, we have to wonder whether or not it is possible to make any modifications this year without jeopardizing the program altogether.

Unless, for example, the Rangel bill could be added to the House deficit reduction measure, the appropriate action that we could envision at the present time would have the House simply recede to the Senate TJTC provisions of the deficit reduction bill once each Chamber has passed its respective version and conference committee action is called.

Thank you.

[The prepared statement follows:]

STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION

Mr. Chairman and members of the Subcommittee, the American Legion appreciates this opportunity to present its views on both the utility and desirability of reauthorizing the Targeted Jobs Tax Credit program (TJTC). As this committee knows, TJTC provides employers a tax credit in exchange for providing jobs to individuals within any of nine targeted categories.

The American Legion can speak for only one of these categories; veterans. As currently provided in the tax credit program, a veteran is eligible if three criteria are fulfilled. Such veterans must have served during the Vietnam era, must be economically disadvantaged and the family income of the veteran at the time of certification for participation must not exceed 70 percent of the established poverty level.

Employers using the program to hire disadvantaged veterans may claim a maximum tax credit amounting to $3,000 the first year and $1,500 the second year. After the first two years the credit benefit for employers is exhausted, but nothing would prevent the employer from hiring additional disadvantaged veterans and claiming the credit once again for each new hire.

Mr. Chairman, there are several very good reasons why veterans have been included in this program since its enactment in 1978, P.L. 95-600. Veterans returning to civilian life, after having served the nation during its most contentious conflict, have sustained severe economic readjustment problems. Many of these problems have been clearly different from those of veterans having served in previous wars.

GI Bill education benefits have been less generous, for example, often delaying the veterans normal course to completion of education or training. Even those veterans having completed their training on schedule following service, however, have had difficulty competing in the job market with their non-veteran peers. This is precisely because, but for their service, they would have completed training between 2 and 4 years earlier and entered the job market at am ore favorable time.

In that regard, few can deny that the general economy and job market that existed during the Vietnam conflict were far superior to that which greeted the returning veteran. This circumstance clearly placed the similarly aged non-veteran at a distinct competitive advantage. For example, many entry level positions during the war simply required Baccalaureate degrees. Later, in the time it took the veteran to complete his education following service, the same entry level position required Masters or even Doctorate degrees. Moreover, as the economy dipped in conjunction with a boom in college attendance, the veteran found himself competing with non-veterans having already begun their careers and already having established their seniority on the job.

The same general phenomenon has been experienced by veterans in nearly every stratum of the job market from professional occupations to blue collar and service occupations. Hence, the veteran has become more susceptible to subsequent downturns in the general economy than the non-veteran. When such downturns occur, the veteran, as the last hired, is the first fired or laid off.

Other readjustment problems unique to Vietnam veterans have also created economic disadvantages. The special psychological problems being treated at VA storefront "Vet Centers" often coexist with employment problems. In fact, the complaints most often heard from these veterans are job related. Many, having dropped out of both the social and economic mainstream, are simply not job ready.

It is especially these veterans who can and have benefited from the TJTC program. While it is true that most of the jobs available to veterans through TJTC are low paying, higher paying jobs with greater responsibility are often, if temporarily, beyond the social means of these veterans.

To date it is unclear why, but veteran usage of TJTC has risen steeply. According to the Department of Labor, certifications for veterans in 1982 numbered 13,272. The following year that number rose by almost 100 percent to 24,141. In the first quarter of 1984, Labor reports certifications increasing at an even greater pace than in 1983. If utilization is a good reason to reauthorize the program, and we believe that it is, then the program should be reauthorized.

Mr. Chairman, today there are a variety of programs available to veterans designed to assist in economic readjustment. Just last August a new emergency job retraining program for veterans, P.L. 98-77, was enacted to address the problems of veterans dislocated by the Nation's most recent recession. Other modest programs to assist veterans are available as a result of grants to states arising from the Job Training Partnership Act. Still other veterans, if eligible, may avail themselves of non competitive placement in federal civil service through the Veteran's Readjustment Appointment Authority.

However, it must be understood that each of these programs have been specifically tailored to meet the specific needs of veterans with specific problems. The TJTC is unlike any of the others and constitutes a very important part of an overall package of veterans employment programs. Even though TJTC represents just one part in an overall package does not and should not mean that it is expendable. We believe this program, unlike any of the others, serves as as significant stepping stone for veterans who might otherwise become just another segment of the structurally unemployed. This again, in our judgment, constitutes good enough reason to reauthorize the program.

There is a question the answer to which the committee may wish to have in order to justify reauthorization of TJTC. Do veterans having received jobs under the program retain these jobs once the tax credit has been exhausted? While we have no answer to this question, it is appropriate to recognize that even if the veteran leaves his job after 2 years, he or she will have been granted an opportunity to establish reliable work habits and job confidence sufficient to move ahead to better paying and more responsible employment.

One final good reason to reauthorize this program is its function as a recession relief program. Even though it is unclear exactly why certifications for veterans rose between 1983 and 1984 by nearly 100 percent, it is likely that at least one reason for the increase stems from the economic dislocation of so many during the most recent, and perhaps most severe recession since World War II. Assuming this to be partially true, the federal government had to have saved many millions of dollars it would otherwise have spent on relief programs and assistance.

There are, however, some improvements that could be made in the program. One of these arises from the earlier question of job retention following expiration of the credit. If it could be shown that employers were precipitously dismissing TJTC employees for no reason other than the expiration of the credit, perhaps local job offices should be given authority to assess a range of increasing penalties to include prohibition from further participation in the program.

Another clear improvement in the program would permit eligibility of veterans with less stringent income limitations. As currently written, the program bars eligibility if the total family income of the veteran exceeds 70 percent of the established poverty level. We believe it both reasonable and advisable to count only the veteran's income rather than that of his family as well.

Yet another improvement involves the length of reauthorization. Both the original bill introduced this year in the Senate by Senator Heinz, S. 2185, and the House bill, H.R. 5094, recently introduced by Representative Rangel call for a 5 year reauthorization. Such a reauthorization would send a clear signal to businesses who might use the program that Congress is seriously committed to the program. The sense of permanence businesses would take from a 5 year reauthorization could allow them to plan their hiring with TJTC in mind.

After having made these observations on how the program might be improved, we must note that the currently pending Senate version of deficit reduction legislation contains a Heinz amendment allowing only a 3 year reauthorization. Given the fact that the House version of the same package, H.R. 4170, contains no reauthorization, we have to wonder whether or not it is possible to make any modifications this year without jeopardizing the program altogether. Unless the Rangel bill could be added to the House deficit reduction measure, and we are skeptical of that prospect's likelihood, the most appropriate action that we can envision would have the House recede to the Senate TJTC provisions of the deficit reduction bill once each chamber has passed its respective version and conference committee action is called.

Mr. Chairman, that concludes our statement.

SIXTY-THIRD ANNUAL NATIONAL CONVENTION OF THE AMERICAN LEGION, AUGUST 29–SEPTEMBER 3, 1981, HONOLULU, HA

Resolution No. 19.

Committee on Economics.

Subject: Targeted Jobs Tax Credit Program.

Whereas, the Revenue Act of 1978 authorized the Targeted Jobs Tax Credit Program, which provides tax credits for private employers hiring certain targeted group members, including veterans; and

Whereas, to be eligible for employment under the Targeted Jobs Tax Credit program, a veteran must be economically disadvantaged; and

Whereas, present eligibility criteria are unnecessarily restrictive; exclude many veterans who could benefit from the program, and impose upon other veterans unnecessary preconditions which could delay their ultimate employment and rehabilitation; and

Whereas, employment opportunities for veterans would be enhanced if their eligibility were expanded; now therefore be it

Resolved, by The American Legion in National Convention assembled in Honolulu, Hawaii, September 1, 2, 3, 1981, that The American Legion urge Congress of the United States to enact legislation which would expand veteran participation in the Targeted Jobs Tax Credit program, and remove any prohibitive preconditions of enrollment; and be it further

Resolved, that the United States Department of Labor be asked to promulgate and emphasize regulations for implementation of this program to expand opportunities for qualified veterans.

Chairman STARK. Mr. Ethridge?

STATEMENT OF WILLIS A. ETHRIDGE, DIRECTOR, REHABILITATION AND TRAINING, ON BEHALF OF ALBERT T. PIMENTEL, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF THE DEAF

Mr. **Ethridge**. Thank you, Mr. Chairman.

I shall speak very briefly. Initially, of course, we do support continuation of TJTC.

I would like to address two or three points that have been raised. One is about the retention rate. We have found that once we can get the hearing-impaired person the opportunity to prove his skills and to prove his abilities to work and assume his place in society, they have stayed with the position.

I checked back since the initiation of TJTC, and at this point we are running a retention rate of 65 percent, from that time.

Another point that was raised was the fact that so many are going in under the minimum wage. We have not made one placement through TJTC that paid the minimum wage. The salaries have ranged from $4.50 to $6.50 an hour.

All of the placements we have made have had benefits including health insurance and the other benefits that most employees would receive.

I cannot emphasize too much the need for the incentive to employers to give handicapped persons the opportunity to take their place in society with a sense of human dignity and confidence in themselves and become taxpayers through our society.

Thank you.

[The prepared statement follows:]

Statement of Albert T. Pimentel, Executive Director, National Association of the Deaf

The National Association of the Deaf (NAD) is a consumer organization representing the social, educational, legislative, and economic interests of hearing impaired persons in this country. The NAD was established in 1880 and has been in continuous existence for 104 years. We are the oldest and largest handicapped consumer organization in the country, representing a hearing impaired population of 16½ million citizens. Our membership consists of persons from all over the United States including affiliated State Associations in all 50 states and the District of Columbia.

Our work includes, but is not limited to: ensuring that deaf citizens enjoy the same rights and privileges that all American citizens are entitled to; elimination of discriminatory practices against deaf people through ongoing support of our Legal Defense Fund; advocating for improved programs of education, vocational training, and social, mental health, and rehabilitation services throughout the country; serving as an information clearinghouse on deafness; and publishing books, and a newspaper and magazine devoted to deafness-related topics which have nationwide circulations.

Specifically relevant to the proposed Targeted Job Tax Credit Bill is our major in-house effort in the area of rehabilitation and training of deaf and deaf/multiply-handicapped individuals.

In keeping with the National Association of the Deaf's concerns for the educational and economic interests of deaf persons, we established a Rehabilitation and Training Program in 1977 within our Home Office located in Silver Spring, Maryland. We provide direct services to deaf residents of Montgomery and Prince George's Counties, Maryland and the District of Columbia. This program was designed to be the model for other localities across the country.

A profile of clients we have served indicates as many as 60% were having difficulty in making the transition from high school to the job market. The remainder of the clients were chronically unemployed because of a) resistance by employers to hire persons with communication problems and b) lack of understanding by our handicapped clients of their responsibilities to employers.

The philosophy of the program is to build upon the strengths of clients. Job training skills in clerical areas and mail handling skills are provided. These classes are instructed by skilled deaf persons who have succeeded and who now serve as role models for clients. Client counseling, placement, and follow-up services are provided.

In 1980, services were expanded to include Vocational Evaluation and Work Adjustment Training. It was also in 1980 that the program was duplicated at our Branch Office in Indianapolis, Indiana. The overall program has been serving 240 deaf clients annually.

During the first three years of operation, 80 to 95% of our clients were placed in competitive unsubsidized employment. It is projected that the placement rate for 1984 will be no less than 80%.

We also established and worked jointly with our affiliated State Association in Massachusetts in the operation of Development Evaluation and Adjustment Facilities (D.E.A.F., Inc.), a rehabilitation and psychological services center for deaf and hard of hearing residents of the New England area.

Because of our determination to ensure that our deaf citizens are given every possible opportunity to enter the job market in this country, I am before you to support continuation of the Targeted Job Tax Credit which passage of H.R. 5094 would ensure. We ask that authorization be for a minimum of five years. Our support is based upon the experiences of our NAD Rehabilitation and Training Program staff members who have been involved in the job placement of deaf clients with various companies in the private sector. In achieving job placements, our placement specialists have utilized the Targeted Job Tax Credit as an incentive for employers to provide opportunities for deaf applicants to prove their skills and value as loyal, dependable employees. The majority of placements achieved through the Targeted Job Tax Credit incentive with these companies would not have been accomplished if it were not for this incentive. It should be noted that we have used the Targeted Job Tax Credit with both large and small businesses.

Unemployment rates of deaf people run 50 to 100% higher than for the general population with variations geographically. Through follow-up to placements and review of client files, we have found a retention rate of 65% for deaf clients placed through the Targeted Job Tax Credit.

The goal of the Federal/State Vocational Rehabilitation Act supported by Congress is to assist disabled American citizens to take their place in competitive, unsubsidized employment. The Targeted Job Tax Credit has proven to be a positive force in opening more businesses for job placements with clients who are deaf or have other physical disabilities. Clients placed through our Program at the National Association of the Deaf have been for the most part former recipients of SSI, SSDI, or other forms of public assistance. The cost effectiveness of the Targeted Job Tax Credit in the case of the clients we have placed has been extremely high. The end beneficiary has been the taxpayer. The clients placed, rather than continuing as recipients of welfare or other forms of public assistance, have become taxpaying citizens.

For the above reasons, on behalf of the National Association of the Deaf, I urge your support of H.R. 5094 for a period of five years.

Chairman **Stark**. Thank you very much.

Sister Judith Schloegel of LEEO, right?

Sister **Schloegel**. Yes. Good morning.

Chairman **Stark**. Good morning.

STATEMENT OF SISTER JUDITH SCHLOEGEL, PH.D., EXECUTIVE DIRECTOR, LIBERATION OF EX-OFFENDERS THROUGH EMPLOYMENT OPPORTUNITIES

Sister **Schloegel**. I am the executive director of an ex-offender employment program, Liberation of Ex-Offenders Through Employment Opportunities, known as LEEO.

LEEO is a Washington, DC, community-based program funded by the Washington, DC, Private Industry Council through the Department of Labor and designed to secure suitable employment for male and female ex-felons.

The services provided include screening, comprehensive job readiness, preemployment counseling, job development, job placement, and a 1-year period of follow-up supervision and supportive services.

Since I began the program in 1977, over 5,000 ex-felons have requested job assistance. We are currently working with over 220 companies and have secured over 775 training and/or job opportunities. The cost per participant is less than $1,500 per person compared to $16,000 to $40,000 to incarcerate, and the recidivism rate is less than 10 percent compared to a national estimate of 70 percent.

The targeted jobs tax credit is designed to give an ex-offender who needs a break the chance to become a productive wage earner. There are an estimated 4,000 unemployed ex-offenders on the streets of Washington, DC, today. The TJTC is a significant tool in their job placement.

Seventy-five percent of those referred to LEEO have less than 12 grades' education, have less than 3 months' work experience; most have children; all have been convicted of serious felonies. The obstacles they face in a competitive labor market within a city plagued by high unemployment demand employer incentives if suitable training and/or job opportunities are to ever be secured.

The TJTC is such an incentive. Among businesses who have hired through LEEO are the Marriott Corp., Singer Aerospace, and a number of others. There are quotations from cooperating employers that would be included in the record.

On behalf of the thousands of unemployed ex-offenders seeking employment today as well as for the over 600,000 persons currently incarcerated, many of whom will be released and need employment for a successful transition back into society, I strongly urge that the TJTC be extended. I conclude with four specific reasons.

First, the TJTC is a viable incentive in encouraging prospective employers to train and/or hire job-ready ex-felons.

Second, the TJTC provides the unskilled, inexperienced ex-felon with a tool by which he or she may approach a prospective employer with a sense of credibility.

Third, the cost of extending the TJTC is far less than the outrageous cost to America's taxpayers for incarcerating thousands of persons who would themselves, if hired, be contributing, tax-paying citizens.

And, fourth, Chief Justice Warren Burger has introduced the model of "Factories within Fences." Prison industry would train and prepare persons for the world of work, thereby easing the current tension of inmate idleness within the institutions. Job placement would be expedited, thereby reducing the serious condition of overcrowding within the prisons.

The TJTC, used creatively, could be one of the most significant factors in the future development of prison industry in the United States.

Thank you.

[The prepared statement follows:]

STATEMENT OF SISTER JUDITH SCHLOEGEL, PH.D., EXECUTIVE DIRECTOR, LIBERATION OF EX-OFFENDERS THROUGH EMPLOYMENT OPPORTUNITIES

Good morning, Congressman Stark and Members of the Subcommittee. My name is Dr. Judith Schloegel. I am a Roman Catholic Sister and the Executive Director of an ex-offender employment program, Liberation of Ex-Offenders Through Employment Opportunities known as LEEO. LEEO is a Washington, DC Community-based program funded by the Washington, DC Private Industry Council, designed to secure suitable employment for male and female ex-felons. The services provided through LEEO include: thorough screening; comprehensive job readiness; preemployment counseling; job development; job placement; and a one-year period of follow up supervision and supportive services. Since I began the program in 1977, over 5,000 ex-felons have requested job assistance. To date, 218 companies in the metropolitan Washington area have hired LEEO participants. 775 training and/or job opportunities have been secured. The cost per participant is less than $1500 per person (compared to $16,000 to $40,000 to incarcerate one person for one year) and the recidivism rate is less than 10 percent (compared to a national estimate of 70 percent.)

The Targeted Jobs Tax Credit (TJTC) is designed to give an ex-offender "who needs a break the chance to become a productive wage-earner". There are an estimated 4,000 unemployed ex-offenders on the streets of Washington, DC today. The TJTC is a significant tool in their job placement. 75 percent of those referred to LEEO: have less than 12 grades education; have less than three months work experience; most have children; all have been convicted of serious felonies. The obstacles they face in a competitive labor market within a city plagued by high unemployment demand employer-incentives if suitable training and/or job opportunities are to ever be secured. The TJTC is such an incentive. Of the 637 placements through LEEO, 269 were made with companies who hired ex-felons on condition of receiving this tax credit. Among these businesses are: the Marriott Corporation; the Singer Aerospace and Marine System; the Truland Corporation; Unified Services; the Bureau of National Affairs; Fort Myer Construction Company; the Washington Convention Center; and the Shirley Contracting Corporation. I quote two employers who speak to the importance of the TJTC. (1) Mr. James Hayes, Personnel Manager of Macro Systems: "I could not have readily placed employees without the Targeted Jobs Tax Credit. It has allowed my company to give employment opportunities to individuals who would not have been given a chance otherwise." (2) Mr. Fred Kramer, Personnel Specialist of the Marriott Gateway Hotel: "I have been involved with the TJTC program since July, 1981. During this time I have discovered that the program is very beneficial to both the employer and applicant alike. From an employer's point of view, (especially in a profit-oriented industry), tax breaks are greatly appreciated. But the TJTC program also gives a feeling of satisfaction that goes along with it. When hiring an ex-felon or handicapped individual, we are taking a chance. However, when they turn out to be valuable employes, which many have, we gain a great deal of satisfaction. Some of these employes may not have been given the chance if it had not been for the TJTC program."

On behalf of the thousands of unemployed ex-offenders seeking employment today, as well as for the 600,000 persons currently incarcerated—many of whom will be released and need employment for a successful transition back into society—I strongly urge that the TJTC be extended.

Important reasons for this extension include: (1) The TJTC is a viable incentive in encouraging prospective employers to train and/or hire job-ready ex-felons; (2) the TJTC provides the unskilled, inexperienced ex-felon with a tool by which he/she may approach a prospective employer with a sense of credibility; (3) the cost of extending the TJTC is far less than the outrageous cost to America's tax payers for incarcerating thousands of persons who would themselves—if hired—be contributing, tax-paying citizens; and (4) chief Justice Warren Burger has introduced the model of "Factories Within Fences". Prison Industry would train and prepare persons for the world of work, thereby easing the current tension of inmate idleness within the institutions. Job placement would be expedited, thereby reducing the serious condition of over-crowding within the prisons. The Targeted Jobs Tax Credit, used creatively, could be one of the most significant factors in the future development of prison industry in the United States.

Chairman STARK. Thank you very much.

Paul Suplizio, representing the Targeted Jobs Tax Credit Coalition.

STATEMENT OF PAUL E. SUPLIZIO, WASHINGTON REPRESENTATIVE, TARGETED JOBS TAX CREDIT COALITION

Mr. SUPLIZIO. Mr. Chairman, thanks very much.

Chairman STARK. That is an august-sounding group who remains very anonymous.

Mr. SUPLIZIO. No, they are listed at the end of the text.

Chairman STARK. All right.

Mr. SUPLIZIO. If I may, though, I would like to discuss who my clients are last. They are management consulting firms who contract with employers to administer, TJTC program on the employer's behalf.

Chairman STARK. OK.

Mr. SUPLIZIO. You raised the question about the interface between TJTC and the JTPA, and I think you should know about a study that was just completed, jointly funded by the Ford Foundation, the Rockefeller Foundation, CS Mott Foundation, and the National Commission for Employment Policy.

Chairman STARK. I read about that in the paper this morning.

Mr. SUPLIZIO. Do you have a copy?

Chairman STARK. There was an article in the paper this morning saying that they didn't think—it had mixed reviews.

Mr. SUPLIZIO. Well, let me just tell you what the high points of it were. Here were people who went out and took a look at the first year of JTPA, and regardless of whether you like the study or not, here are the figures, and they show why we need TJTC.

You've got title II[a], training for the disadvantaged, which for JTPA corresponds mostly to the TJTC area; $1.8 billion is assigned there, is allocated. They expect to handle service levels of 800,000 to 900,000 a year in training which has got to ensue in placement for the disadvantaged.

Now, that is out of a population of eligibles of 25 million. Twenty-five million eligibles out there; 800,000 to 900,000 a year are going to be assisted by JTPA, title II[a], training for the disadvantaged.

Now, take a look at it in the Chicago service delivery area to see what this comes down to. You've got 500,000 economically disadvantaged people in the Chicago area. Thirteen thousand are going to be assisted under the title; less than 3 percent.

And here is a further point made by these people. Because of the performance standards in the JTPA, the need to achieve placements, and you don't have the support system there, the training stipends and so on, to assist those most in need. The needs of the local labor market are going to be met first, and those who are most in need are going to be picked up last, according to this study, as the direction that JTPA is headed in.

Now, TJTC focuses on that residual group. The $1.5 billion or whatever we are going to be spending in that particular area complements what they are going to be doing with JTPA where they have 25 million to choose from. There are a lot of people who stand in line before these disadvantaged in the hiring queue. There are a lot of them—all of the people who are going to be absorbed from unemployment; all of the people who are nondisadvantaged are going to be picked up through greater participation in the labor force. So you have a really difficult situation there.

The Labor Department has got to understand that both sides of the scissors cut. Now, they took a year to get the institutions in place for JTPA; they published the regulations almost overnight. We are still waiting for Treasury regulations on TJTC, and this program has received indifferent administration by the Department of Labor.

You have heard Dr. Bishop say the main problem with the program is employer ignorance. Despite that ignorance, we are still putting 36,000 people a month into jobs.

Now, you mentioned something about the turnover. You have got to consider the man-job match. These are disadvantaged people with few skills, and they are going into low-paying jobs, but they are getting jobs in the private sector.

And remember this. There was an important University of Michigan study on the causes and sources of poverty. Only 2 percent of the population is staying in persistent poverty. You've got 25 percent that drops in there every now and then. The turnover is showing that people are getting out of those retail jobs, those service industry jobs, those food service jobs and they are moving on. They have the opportunity to do that, and that is the nature of the system. Of course, TJTC is a tax credit, and it influences the employers to seek out that type of individual. That is why you made it a tax credit, to influence their behavior. And if it is doing the job and causing the employer to say, I'll take this guy rather than this guy, that is presumably what you want, because the nondisadvantaged fellow can take his chances in an expanding labor market.

The economy is now creating 4 million jobs a year, and the baby bust generation is feeding in a million and a half. You have got some real drawing of people into the labor force that is going on. And that will work to the benefit of the disadvantaged. But remember that they stand last in the hiring queue.

On the cost effectiveness of TJTC, all you have to do is divide the 431,000 we placed last year into the Treasury's estimate of the cost. We will take the official estimate of the cost, $455 million. You come out with $1,055 per placement there.

Now, that is not bad. Remember I said about 800,000 placements in the JTPA for $1.8 billion. That works out to $2,000 per placement. So you are working with a type of individual who you can do more with, who is more job ready, under JTPA, putting $2,000 into that individual, whereas TJTC is costing you about $1,055 for a disadvantaged person.

So we think that there is a pretty good case for keeping TJTC. Both sides of the scissors cut.

[The prepared statement follows:]

STATEMENT OF PAUL SUPLIZIO, WASHINGTON REPRESENTATIVE, TARGETED JOBS TAX CREDIT COALITION

Mr. Chairman and members of the subcommittee: I am pleased to appear before you today as the representative of the Targeted Jobs Tax Credit Coalition, a group of nine management consulting firms who administer the targeted jobs tax credit program for over one hundred employers. A list of the members of the Coalition is attached to our testimony. On behalf of these firms and their clients, I wish to express strong support for renewal of the targeted jobs tax credit for a period of five years.

Let me summarize the main points we would like to make to this Subcommittee.

The targeted jobs tax credit was enacted to provide an incentive to employers to hire from groups experiencing high unemployment rates or special barriers to employment. The program is working as Congress intended, and has proven its ability to create jobs for members of targeted groups. However, only a relatively small percentage of target populations have been assisted by TJTC. This is due primarily to the short program duration, which has been insufficient to overcome employer resistance to changing their hiring methods; and insufficient emphasis on job development and more extensive vouchering of eligibles by the Labor Department.

The targeted jobs tax credit must be an integral component of the nation's strategy for dealing with structural unemployment by providing employment and training assistance to disadvantaged workers. The Job Training Partnership Act has insufficient resources to deal with more than a small fraction of the disadvantaged population, and is not structured to serve the more seriously disadvantaged. A recent study of JTPA jointly funded by the Ford, Rockefeller, and Mott Foundations and the National Commission for Employment Policy shows that Title II's $1.8 billion funding level for training assistance to the disadvantaged will permit service to no more than 800,000-900,000 annually of an estimated population of 7 million eligibles. It is essential that TJTC be used to pick up the slack.

TJTC should be elevated on a par with JTPA as co-equal instruments of employment policy. We should apply the principle that both sides of a scissors cut. Upon enactment of JTPA, Labor promptly published regulations and an entire year has since been devoted to putting in place the Private Industry Councils, Service Delivery Areas, and other institutions. A total of 15 percent of Title II ("Training for the Disadvantaged") funding, or $270 million, is allowed for administrative costs. Despite its promise, TJTC has been a poor step-sister. Treasury regulations for the program are still not final. Labor hasn't published a program manual that's been in preparation for a year. There's been a failure of leadership to prevent issuance of crippling, overly restrictive eligibility documentation requirements. Administrative funds for the program, including both Federal and State needs, have been limited to $20 million.

TJTC is one of the most cost-effective Federal employment programs for the disadvantaged. The basis for this statement is a study completed by the State of Maryland Department of Employment and Training, which is summarized in the tables attached to our testimony. Until the Maryland study, the only cost estimate for TJTC were the tax expenditure figures computed by the Treasury Department and the Joint Committee on Taxation. These estimates are $3.5 billion additional revenue loss for FY 85-89 for a 5-year extension, and $2.9 billion over the same period for a 3-year extension. Over the FY 85-87 period covered by this year's budget resolution, the added cost to the Treasury would be $1.6 billion for either a 5-year of 3-year extension. However, the Treasury methodology assumes there are no new jobs and no new income generated in the economy by the tax credit. As the tax credit lowers the effective wage rate and increases the employer's demand for labor, additional jobs and income are to be expected. After tracking a representative group of TJTC workers and a control group for two years, the State of Maryland found an income increase of $888 per TJTC participant. Subtracting taxes paid on this income, and transfer payment reductions, the net cost of a TJTC certification is $353 (rather than $1,100-$1,800 based on Treasury's figures). Comparing this to the $2,000-$2,250 cost per placement under JTPA Title II, one can see the large cost advantage of TJTC over other programs.

The targeted jobs tax credit has been criticized for generating, in the words of one report, "mainly low-pay, low-status, no-growth, high turnover positions in the secondary labor market". It is true that the bulk of jobs for which the credit is claimed are relatively low paying, entry level positions requiring few skills. It is also true that the target populations are economically disadvantaged youth and others with severe employment barriers who require assistance in getting a foothold in the labor market. The fact that such persons are moving into entry-level jobs for the unskilled is an indication of the success of the program in targeting on those most in need—not an indication of failure. They have the opportunity to move on to better paying jobs, and many do so. TJTC enables them to gain a foothold on the lowest rung of the economic ladder. At the same time, it helps satisfy the growing need for unskilled labor in the retail and service trades. By focusing employer demand on relatively unskilled labor, it does not contribute to tightening of skilled labor markets and thus adds minimally to inflation. It would be possible to design a tax incentive that includes training for more highly skilled and better paid jobs, but it would be more costly, the jobs would go to those that were more job-ready and better prepared to absorb training, and the most severely disadvantaged workers would be left behind.

The changing demographics of the labor market and new insights into the causes of poverty reinforce the need for the targeted jobs tax credit and point the way to improved design. Last year the economy created 4 million new jobs, but the low birth rates of the "baby bust" generation that began in 1964 means that only about 1.5 million new workers are entering the labor force each year. However, a large number of workers permanently displaced by technology and international competition now stand ahead of the disadvantaged in the hiring line. Left to their own devices, employers will absorb these workers and others not now in the labor force before hiring the hard-core unemployed. TJTC provides an incentive to these employers to take a chance on the disadvantaged worker. A new University of Michigan study shows that of the 2 percent of the population that are persistently poor, one-third are old or live in families headed by the old, 40 percent live in households in which the head of the family is disabled, and two-thirds live in the South, mostly in rural areas. We need to deal also with the million young people who drop out of school each year, and the high incidence of poverty among households headed by single women. These factors argue for inclusion as new target groups all economically disadvantaged youth ages 16–17, economically disadvantaged single heads of household, economically disadvantaged persons age 65 or older.

To improve the effectiveness of the targeted jobs tax credit, Congress should: (1) Grant a five-year extension, which will permit better planning by employers and the Department of Labor, and ensure a better employer response; (2) ensure a higher priority for, and better promotion of the program by the Department of Labor, including stronger emphasis and awareness in local Job Service offices; (3) require integration of TJTC with JTPA planning and, where possible, with JTPA operating programs; establish the same income test for "economically disadvantaged" in TJTC and JTPA; and more closely coordinate other eligibility requirements; (4) reduce red-tape in the program by eliminating DOL certification and providing for employer self-certification as is the case for other tax credits; (5) require State Employment Security Agencies to broadly delegate vouchering authority to qualified community-based organizations, Private Industry Councils, state and local government agencies, vocational rehabilitation and welfare offices for stronger outreach and more extensive vouchering of eligibles; (6) raise the funding level for TJTC administration from $20 million to $35 million, including $5 million for program evaluation, and authorize SESA's to use their basic employment security grants for TJTC if required; (7) extend the validity period for an eligibility determination (voucher) from 45 to 90 days; (8) provide a grace period of 5 working days for an employer to request certification of a new hire by the Job Service; and (9) require the Department of Labor to improve program linkages to small and medium size businesses, who are responsible for creating the bulk of the new jobs in the economy.

In the remainder of our statement, we will present the underlying rationale and evidence bearing on the policy positions presented above.

RELATIONSHIP OF TJTC AND JTPA

Both the targeted jobs tax credit and the training programs for the disadvantaged under Title II of the Job Training Partnership Act should pull together in a coordinated national strategy for providing employment and training assistance to those with special employment needs. The principle is that both sides of a scissors cut. This will require the Federal government to elevate considerably the status and visibility of TJTC, including far more vigorous leadership and administration of the program by the Department of Labor.

Increased emphasis on TJTC is essential because the resources provided under Title II of JTPA, $1.8 billion in FY 1984, are adequate to serve only a small part of the eligible disadvantaged population. This point is made by a study issued last month JTPA's first year of operation. Entitled, An Independent Sector Assessment of the Job Training Partnership Act Phase 1: The Initial Transition, the study was funded by The Ford Foundation, The Rockefeller Foundation, The C. S. Mott Foundation, and The National Commission for Employment Policy.

According to the study, the total number of eligibles for Title IIA (training services for the economically disadvantaged) assistance is estimated at 25–35 million. Of this figure, the number of those "most in need" is placed at 2–11 million. Yet the Title IIA service level will only be 800,000–900,000 persons per calendar year.

To illustrate the impact on a single Service Delivery Area, Chicago's Title IIA eligibles are estimated at 500,000. Yet only 13,000 or less than 3 percent of the eligibles can be served under current service levels.

During the course of the study, 25 Service Delivery Areas in 15 states were visited. A total of 57 Service Delivery Areas in 35 states were either visited or canvassed by telephone. Data collection was performed during the October-December 1983 time frame.

According to the study team, JTPA faces a hard question of choice. Which among the eligible population are to be served? Those are nearly job ready and require mainly placement assistance? Or those with more severe barriers to employment who will be more costly to assist? Put another way, what priority should be given to enrolling those "most in need", and what priority to satisfying the needs of employers in local labor markets?

For the answer given to these questions, we will let the study speak for itself:

"The priorities of the States, however; the planning and operational decisions of the local partners; and, according to State and local administrators, JTPA's own provisions, have merged to establish an early direction. That direction tilts to the side of meeting the needs of the local labor market efficiently, rather than serving those most in need of assistance.

"A major JTPA priority centers on meeting uniform performance goals which are job-placement oriented. That priority pushes SDAs toward enrolling the groups they believe can best help them meet those goals, and away from enrolling those who might make achievement of those goals difficult. The limitations on support services and work experience and the limited amount of JTPA funding available buttress the tendency of not seeking out those most in need of assistance to enter the labor market. . . .

"Introduction of the PICs as a major local partner has also been a factor in the direction JTPA is taking. The PICs see as their primary tasks improving the relationship of the JTPA employment and training system to the local market, and achieving high performance in meeting the needs of that market. . . . The PIC chairman of a major urban site . . . put it simply: 'TPA was not designed for the hard-core unemployed'.

"Another PIC chairman commented: 'There are plenty of poor people to deal with without worrying about the really difficult-to-employ.' . . .

"One SDA director, a strong supporter of the usefulness of JTPA and its partnership with the local private sector, said: 'There needs to be another title, or a new act, for the hard-to-employ." ' (pp. 129 132)

But such an act already exists in the form of the targeted jobs tax credit. Because it is targeted to specific distressed groups among the hard-to-employ, TJTC can help pick up the slack in dealing with that part of the disadvantaged population that JTPA will not reach. In fact, it is an indispensible instrument for this purpose.

To achieve this goal, TJTC requires major new emphasis by the Department of Labor. That Department has failed to realize the potential of TJTC as an instrument of employment policy. It has remained wedded to the traditional employment and training delivery system, and submerged TJTC in a small office. The civil servants are intelligent and dedicated, but they need far more support from the Secretary.

When JTPA was enacted, Labor immediately published regulations and has spent an entire year guiding the evolution of the new system and putting in place the Private Industry Councils, Service Delivery Areas, and the rest of the institutional framework. This was necessary and appropriate. But Labor has been unsuccessful in prodding Treasury to issue the TJTC regulations (which, after five years, should be issued soon). Though its operating manual on TJTC has been a year in preparation, it remains unpublished. Labor's excessively conservative approach to audit and documentation of eligibility has helped stymie and cripple the program and prevented its reaching its full potential.

Moreover, TJTC's total funding for administration at all levels nationwide is $20 million and has remained at that level for the past three years. Certifications have more than doubled between FY 1982 and FY 1983, and with the increased workload backlogs have begun to grow in the SESA's and pose a threat to the orderly functioning of the program. For comparison, Title II of JTPA authorizes $270 million for administration nationwide. The level of TJTC funding should be raised immediately to $35 million, including $5 million for program evaluation, and addition funds should be budgeted for advertising, promotion, and job development by the SESA's. Funding for TJTC should continue to come from general revenues, and SESA's should be authorized to use their basic employment security grant for TJTC administration if required.

Improved coordination is required between the Job Training Partnership Act and the targeted jobs tax credit if TJTC is to pick up the slack for those disadvantaged workers that JTPA will not reach. Despite the demonstrated insufficiency of resources budgeted for JTPA Title II, and the obvious opportunity for achieving significant results through improved coordination (for example, by using JTPA resources for extensive vouchering of TJTC eligibles), the Joint Foundation-National Commission for Employment Policy study does not contain a single mention of TJTC.

Vouchering authority should be extended to Private Industry Councils or local government bodies, whichever is designated to receive and administer JTPA grant funds for the particular Service Delivery Area. The Joint Foundation-NCEP study found that in three-quarters of the sample sites, the partners selected local government to be the grant recipient and administrative agency. State government, community-based organizations and PIC's assumed those roles in the remainder of the sites. By extending vouchering authority to appropriate JTPA institutions, the Federal government can ensure that the entire employment and training delivery system—not just the Job Service—fully integrates TJTC into their plans and programs.

Using JTPA resources for extensive vouchering of TJTC eligibles, for referral and placement services for those eligibles, and for promotion and job development with employers, will not only enhance the effectiveness of TJTC but will assist JTPA agencies in meeting required performance standards.

In this task, employers representatives such as the consulting firms who are members of the Targeted Jobs Tax Credit Coalition, have a demonstrated capacity to establish linkages between employers and referral agencies, and can therefore make an important contribution.

Another method of coordination has been recommended by the National Alliance of Business. In this approach, an individual is certified for TJTC before entering a JTPA-subsidized training program with an employer. Because the law bars credit for wages paid while in a federally-assisted training program, the period for which TJTC would be earned would begin upon completion of the training program. The employer would thus have a strong incentive to train and retain the disadvantaged worker.

There should be better coordination between TJTC and JTPA Title II with respect to definition of eligibles. JTPA eligibles are: (a) those with income less than the Office of Management and Budget's poverty level or 70 percent of the lower living standard income level, whichever is higher; (b) Federal, State or local welfare recipients; (c) Food Stamp recipients; (d) foster children for whom State or local payments are made; and (e) handicapped individuals who are economically disadvantaged but whose families are not, as permitted by the Secretary of Labor.

These categories overlap with, but in many ways cover different sub-groups of the disadvantaged population than TJTC. For example, JTPA eligibles include all economically disadvantaged persons who meet the required income test, regardless of age. In TJTC, this category is limited to ages 18-24. The JTPA category for handicapped individuals is broader than the TJTC category which is limited to vocational rehabilitation referrals. TJTC contains no explicit category for Food Stamp recipients.

Congress should give consideration to expanding TJTC to cover the JTPA categories of eligibles (except for foster children, which would be inapplicable). Congress should also coordinate the income tests for the two programs, and mandate their periodic revision. At present the TJTC criterion is 70 percent of the lower living standard and there is no provision for applying the OMB poverty level. BLS' lower living standard data has not been revised since 1980, and up-dating is urgently required.

TJTC'S IMPACT ON ELIGIBLE GROUPS

Only fragmentary data is available on TJTC's impact on eligible groups. However, the Department of Labor has recently issued a Request For Proposal for a contract study of this subject. While it comes rather late in the day, we nevertheless welcome this initiative.

DOL should be required to publish more extensive statistical data on the characteristics of the populations being served by TJTC, and of the jobs in which workers are placed. It is already collecting much of this data, which should be published for use by independent researchers.

The General Accounting Office has published the only assessment we know of concerning TJTC's impact, and its inquiry was limited to the economically disadvantaged youth category (see GAO/PAD-83-44, dated June 8, 1983). GAO used total hires of disadvantaged youth, 18-24 years of age, by the private business sector as a proxy for the size of the eligible population. It adjusted gross new hires to full-year equivalent hires to account for the fact that some persons are hired more than once during the year.

GAO computed the "take-up rate" as the ratio of certified hires under TJTC to the estimated population of eligible hires. For economically disadvantaged youth ages 18-24, it found the take-up rate for full-year equivalent hires to be 3.8 percent in FY 1980, 6.9 percent in FY 1981, and 5.5 percent in FY 1982. Since retroactive certification of those already on payrolls was permitted in FY 1980 and FY 1981 but not in FY 1982, GAO found the increase from 3.8 to 5.5 percent—which occurred during a period of stagnant employment growth—to be encouraging.

Since the number of TJTC certifications more than doubled from 202,000 in FY 1982 to 434,000 in FY 1983, we have computed rough estimates of TJTC's impact on four different groups in FY 1983. In these estimates, we used total number unemployed as a proxy for the economically disadvantaged population, where the figure for the unemployed was available. It is true that total unemployed includes many from non-economically disadvantaged families. However, this would be offset by the large number of economically disadvantaged persons who are not in the labor force because they have been unable to find jobs. Such "discouraged workers" are not included in the unemployment figures, which counts only those actively looking for jobs.

Where the figure for unemployed was not available, we took the total population of eligibles from the Budget of the U.S. Government for FY 1983. This applies to the number of SSI and AFDC recipients. Our results are presented in Tables 1 and 2.

Table 1 shows that 14 percent of disadvantaged youth were vouchered, and 6.2 percent were certified in FY 1983. For the ages 16–17 group, which were eligible only for the Summer Youth Program of TJTC, 11.6 percent were vouchered and 4.5 percent were certified. For the black, Hispanic, and other non-white population, 21.9 percent were vouchered and 9.7 percent were certified. These results were based on a GAO finding that blacks comprised over 30 percent of certifications and Hispanics about 11 percent. For the Summer Youth Program, if one assumes that 60 percent of vouchers and certifications were for black and Hispanic youth, we estimate that 37 percent of the minority population were vouchered and 14.7 percent certified in FY 1983.

These results show that while, overall, the impact on disadvantaged youth—who make up 60 percent of all who are certified—is relatively low, there has been a significant impact on the minority population. The figure for assistance to this group is not so low as one might have been led to believe by the earlier GAO data. Moreover, if one looks at vouchers as measuring the extent of outreach to the eligible population of disadvantaged youth, the percentage of the overall population vouchered is respectable (14 percent) and the percentage for blacks and Hispanics is impressive (22 percent overall, 37 percent for summer youth).

Data for SSI and AFDC recipients and economically disadvantaged Vietnam-era veterans is shown in Table 2. SSI recipients are a group tht has been least impacted by TJTC. This population is comprised entirely of the aged, blind and disabled, and the number of persons in this group willing and able to hold jobs is not known. It is assumed to be far less than the total population of nearly 4 million SSI recipients. Nevertheless, because of data showing that many households headed by such persons are in persistent poverty, Congress should direct the Departments of Labor and Health and Human Services to give more emphasis to this group. A flyer describing the program could be sent with the monthly Social Security check, and rosters of SSI recipients could be made available to local Job Service offices.

TJTC appears to be having a significant impact on the population of AFDC recipients. The actual number of vouchers and certifications for FY 1983 are respectable—294,000 vouchers and 51,000 certifications issued. While the percentage figures are low, this is because they are based on the total AFDC population of 3.7 million heads of household, many of whom are unable to hold jobs without significant support services such as day care, or are not in the labor force for other reasons. Even so, to have vouchered 7.8 percent of the total population, and found jobs for 51,000 such individuals in a single year, is not an insignificant achievement.

Using the number unemployed as a proxy for the number of economically disadvantaged Vietnam-era veterans, we see that 81,000 or 12.5 percent were vouchered in 1983. The number actually placed in jobs utilizing the credit (certifications) was, however, significantly lower. SESA's have a staff structure specifically designed to support veterans employment, including a disabled veterans outreach program (DVOP) staff member in many Job Service offices, and a designated local veterans employment representative (LVER) in all offices. Since many Job Service offices are still only vaguely aware of TJTC, indoctrinating the staff and publicizing the program through veterans organizations could result in a more significant impact. This would be an appropriate function for the Office of the Assistant Secretary of Labor for Veterans Employment.

These results were obtained, it should be recalled, with a relatively low level of management emphasis and a low level of funding for administration. If the Department of Labor would strongly push TJTC, integrate it with Employment Service and JTPA programs, and ensure adequate administrative funding, more significant results could be achieved.

For the individuals who have been impacted, there is little doubt that the TJTC program is working effectively, and working as Congress intended. To have placed in productive employment 431,000 hard-to-employ, disadvantaged workers—including 259,000 youth, 51,000 AFDC recipients, 25,000 handicapped persons, 22,000 ex-convicts, and 24,000 Vietnam veterans—is not an insignificant achievement. This is a national rate of placement of 36,000 per month.

THE COST-EFFECTIVENESS OF TJTC

Until the recent completion of a study by the State of Maryland Department of Employment and Training, the cost-effectiveness of TJTC had to be gauged by relating the number of placements during the fiscal year to the cost estimates prepared by the Treasury Department and Joint Committee on Taxation for revenue loss associated with the tax credit. These figures are presented in Table 3. They show the added cost of a 5-year extension of TJTC to be $3.5 billion, and the added cost of a 3-year extension to be $2.9 billion.

Within the FY 1985–87 time frame of the current budget resolution, the cost of either extension is the same, $1.6 billion.

Using Treasury's published data (Special Analysis G for the FY 1985 Budget, Table G–2), which estimates a revenue loss of $455 million for the 431,000 certifications that occurred in FY 1983, the cost per certification is $1,055. This is a respectable figure, considering that the average cost per placement for JTPA Title IIA, computed from data provided in the Joint Foundation-NCEP study, is $2,000–$2,500.

However, Treasury and the Joint Committee on Taxation have always assumed that there is no net new job creation as a result of TJTC—that eligible workers simply displace non-eligible workers in existing jobs. However, this assumption runs counter to the fact that TJTC lowers the effective wage rate for the employer and increases his demand for labor. Depending on the extent of the increased demand as the effective wage rate is lowered, called the firm's elasticity of demand, the number of additional jobs created can be relatively large or relatively small. But there is always some increment of new jobs, and new income generated as a result of those jobs. This means the revenue loss projected by Treasury can be offset by taxes paid on this additional income. It can also be offset by reduction of transfer payments to TJTC participants. This is what the State of Maryland study measures.

The Maryland study followed a sample of TJTC participants, and a comparable control group of persons who were TJTC-eligible but did not participate, for a period of a year before and a year after they were placed in a job or their eligibility was determined. There were 396 TJTC participants, and a little over 300 in the control group. The study measured the number of individuals within each group who achieved specified income levels, comparing the record for the year before to the record for the year after. The results are shown in tables 4 and 5. A significantly higher number of TJTC participants achieved an income level of $6,000 per year or more. The average earnings of TJTC participants in the year following employment was $3,932 compared to $3,044 for the control group in the year following eligibility determination. The net earnings increase per TJTC participant was thus $888.

The study computed the total tax credits claimed by employers for the TJTC participants, and found the average gross tax credit per participant to be $1,142. This gross tax credit is not a measure of the revenue loss to the Federal government because of the add-back provision of the law which reduces the allowable wage deduction by the amount of the credit. Assuming an average marginal corporate tax rate of 35 percent—the rate used by the Treasury Department and Joint Committee on Taxation in their estimates—the revenue loss from $1,142 in tax credits is $742. This is shown in Table 6.

Table 7 shows the findings of the Maryland study with respect to the tax revenue generated by the additional earnings of the TJTC participants. The additional tax revenue is $96,874 or $245 per participant.

Table 8 shows the study's computation of net transfer payment decreases for the TJTC workers. The total savings are $56,967 or $144 per participant.

Table 9 shows the study's calculation of the net cost to society of the average credit per TJTC participant. The State of Maryland, using an average corporate tax rate of 25 percent, figured the net cost to be $468. If a 35 percent corporate tax rate had been used, the net cost would be $353. These costs are attributable to first-year earnings, and would be further offset by any second-year savings. However, the Maryland study found that any such savings would be slight, due to virtually 100 percent turnover of participants during the first year.

The results of the Maryland study lend strong support to the conclusion that TJTC is one of the most cost-effective Federal employment programs.

THE QUESTION OF TJTC'S CONCENTRATION IN LOW-PAYING JOBS

The targeted jobs tax credit has been criticized for generating, in the words of one report, "mainly low-pay, low-status, no-growth, high turnover positions in the secondary labor market." It is true that the bulk of jobs for which the credit is claimed are relatively low paying, entry level positions requiring few skills. It is also true that the target groups are economically disadvantaged youth and others with severe employment barriers who require assistance in gaining a foothold in the labor market. The man-job match should be considered in evaluating why most jobs are entry level.

The fact that such persons are moving into entry-level jobs in the private sector is an indication of the success of TJTC in targeting those most in need—not an indication of failure. The first need of an unemployed person is a job. He or she has the opportunity to move on to better paying jobs, and many do so. TJTC enables them to gain a foothold at the lowest rung of the economic ladder.

At the same time, TJTC helps satisfy the growing need for unskilled labor in the retail and service industries. By stimulating employer demand for relatively unskilled labor, it does not contribute to tightening of skilled labor markets and thus adds minimally to inflation.

It would be possible to design TJTC to stimulate more jobs in manufacturing and relatively more skilled trades. However, this would require raising the allowable wage base to $7,000 and perhaps higher, to compensate firms for their additional investment in training, and to provide a sufficient incentive to hire and train disadvantaged workers for higher paying jobs.

It would also be possible to design a training tax credit so that firms that provided training for disadvantaged workers could recover their training costs. Such a tax incentive could be focused on the working poor who have not been able to raise themselves above entry-level clerical, retail or service jobs.

These approaches would add a new dimension to TJTC, but would be more costly. Moreover, the jobs would go to those among the disadvantaged who were more job-ready and better prepared to absorb training, while more severely disadvantaged workers would be left behind. We would be happy to work with the Subcommittee's staff to assist in developing these new approaches, should you so desire.

DEMOGRAPHICS OF THE LABOR MARKET

In looking for ways to make TJTC more effective, the changing demographics of the labor market need to be considered. Among the points that deserve attention are:

The economy created 4 million new jobs in 1983, and if recovery is sustained will continue to do so. But the "baby bust" generation that began in 1964 is adding only 1.5 million new workers to the labor force each year.

A large number of workers permanently displaced by economic change and international competition, and new entrants into the labor force from groups who are being drawn into greater participation in the labor market, stand ahead of the disadvantaged in the hiring line. Left to their own devices, employers can be expected to absorb these workers before hiring the disadvantaged.

The most exhaustive study of poverty thus far undertaken, completed recently by investigators at the University of Michigan, reveals that of the 2 percent of the population that is persistently poor, one-third are old or live in families headed by the old, 40 percent live in households in which the head of the family is disabled, and two-thirds live in the South, mostly in rural areas.

A million young people who drop out of school each year need employment assistance if they are not to become a burden on society.

Numerous studies have shown that there is a high incidence of poverty among households headed by single women.

We believe these factors argue for inclusion as new target groups: economically disadvantaged youth, ages 16–17; economically disadvantaged single heads of household; and economically disadvantaged persons age 65 or older.

We urge the Congress to give serious consideration to including these groups within TJTC.

SUMMARY OF RECOMMENDATIONS

To improve the effectiveness of the Targeted Jobs Tax Credit, we recommend that Congress:

(1) Grant a five-year extension, which will permit better planning by employers and the Department of Labor, and ensure a better employer response;

(2) Ensure a higher priority for, and better promotion of TJTC by the Department of Labor, including stronger emphasis and awareness in local Job Service and JTPA offices;

(3) Require integration of TJTC with JTPA planning and, where possible, with JTPA operating programs; establish the same income test for "economically disadvantaged" in JTPA and TJTC; and more closely coordinate eligibility requirements;

(4) Reduce red-tape in the program by eliminating DOL certification and providing for employer self-certification, as is the case in claiming other tax credits; DOL would continue to voucher (certify) the eligibility of individuals as belonging to target groups;

(5) Expand vouchering authority to Private Industry Councils or local government bodies, whichever is the administering body for JTPA grants; to qualified community-based organizations; and to other state agencies such as vocational rehabilitation and welfare offices, for stronger outreach and more extensive vouchering of eligibles;

(6) Raise the funding level for TJTC administration from $20 million to $35 million, including $5 million for program evaluation; provide funds for promotion and outreach to eligible groups; and authorize SESA's to utilize their basic employment security grants for TJTC administration if required;

(7) Extend the validity period for an eligibility determination (voucher) from 45 to 90 days in order to permit more cost-efficient vouchering and job search;

(8) Provide a grace period of 5 working days for an employer to request certification of a new hire, to prevent denial of certification due to late postmark (the State of New York has stated that such denials are running at the rate of 200 a month) and clerical error;

(9) Require the Department of Labor to improve program linkages to small and medium size businesses, who are responsible for creating the bulk of the new jobs in the economy.

Mr. Chairman, this concludes my testimony. Are there any questions?

MEMBERS OF TARGETED JOBS TAX CREDIT COALITION

Arnold Standard Review Corp., 189 Sunrise Highway, Rockville Centre, NY 11571
The Alameda Co., 2719 Encincal Avenue, Alameda, CA 94501
Management Insights, Inc., 5501 LBJ Freeway, Dallas, TX 75240
Management Improvement Corporation of America, 2634 Chapel Hill Boulevard, Durham, NC 27707
Southeastern Research, Inc., P.O. Box 4956, Columbia, SC 29240
LTW Management Services, 92 West Main Street, Freehold, NJ 07728
PCS Reports, Ltd., 1701 Elm Avenue, Brooklyn, NY 11230
Target Management Company, Inc., P.O. Box 59861, Dallas, TX 75229
Walton Management Services, Inc., 560 Main Street, Loch Arbour, NJ 07711

TABLE 1.—TARGET POPULATIONS, VOUCHERS AND CERTIFICATIONS, FISCAL YEAR 1983

[In thousands]

Disadvantaged youth	Number unemployed [1]	Unemployment rate percent	Number of vouchers	Percent	Number of certifications	Percent
All	4,159		582	14.0	259	6.2
Age 16 to 17	753	24.5	[2] 87	11.6	[2] 34	4.5
Age 18 to 19	1,076	21.1				
Age 20 to 24	2,330	14.5				
Black and Hispanic:						
All	1,093		[3] 239	21.9	[3] 106	9.7
Age 16 to 17	143	46.6	[4] 53	37.0	[4] 21	14.7
Age 18 to 19	298	44.0				
Age 20 to 24	652	29.2				

[1] Number unemployed is used as a proxy for economically disadvantaged youth.
[2] Summer youth program, not included in total of vouchers and certifications.
[3] Based on GAO data that black and Hispanic comprise 41 percent of total vouchers and certifications.
[4] Based on 60 percent of summer youth vouchers and certifications.

TABLE 2.—TARGET POPULATIONS, VOUCHERS AND CERTIFICATIONS, FISCAL YEAR 1983

[In thousands]

	Total population	Number unemployed[1]	Number of vouchers	Percent	Number of certifications	Percent
SSI recipients:						
Total	3,870		3.1	Nil	1.3	Nil
Aged	1,295					
Blind and disabled	2,155					
AFDC recipients	3,758		294	7.8	51	1.4
Vietnam-era vets		649	81	12.5	24	3.7

[1] Number unemployed is used as a proxy for the number of economically disadvantaged Vietnam-era veterans.

TABLE 3.—TREASURY AND JOINT COMMITTEE ON TAXATION ESTIMATES OF REVENUE LOSS FROM TJTC

[In millions of dollars]

	Fiscal year—						
	1983	1984	1985	1986	1987	1988	1989
Baseline (budget table G-2)	455	695	730	[1] 400	[1] 200		
Added cost, 3-yr extension			163	536	914	800	500
Added cost, 5-yr extension			163	536	914	950	904
Total added cost of 3-yr extension, fiscal year 1985–89: $2,913.							
Total added cost of 5-yr extension, fiscal year 1984–89: $3,467.							

[1] Estimated.

TABLE 4.—STATUS OF MARYLAND STUDY OF TJTC, COMPARISON OF RATE OF IMPROVEMENT OF INCOME

	TJTC participants			Control group		
	Number with income above $6,000/yr	Total in group	Rate (percent)	Number with income above $6,000/yr	Total in group	Rate (percent)
Before	14	396	3.5	24	309	7.8
After	109	396	27.5	50	316	15.8

TABLE 5.—*State of Maryland study of TJTC, average earnings in year following employment or eligibility determination*

Average earnings of TJTC participants	$3,932
Average earnings of control group	3,004
Net earnings increase per TJTC participant	888
Total additional earnings of all TJTC participants	351,648

TABLE 6.—STATE OF MARYLAND STUDY OF TJTC, TAX CREDIT ON FIRST-YEAR WAGES OF PARTICIPANTS

Income level	Number of participants	Wages earned	Tax credits	Average gross tax credit per participant
Above $7,500/yr	57	$412,828	$140,345	$2,462
$6,000 to $7,500/yr	52	246,290	113,855	2,190
Under $6,000/yr	287	396,018	198,009	690
All	396	1,055,136	452,209	[1] 1,142

[1] The $1,142 average credit is not a measure of the revenue loss to the Federal Government because of the add-back provision of the law which reduces the allowable wage deduction by the amount of the credit. For example, a $3,000 credit for an employer in the 46 percent tax bracket costs the Federal Government $1,620 (.54X3,000).

Assuming an average marginal corporate tax rate of 35 percent—the rate used by Treasury and the Joint Committee on Taxation—the net revenue loss from $1,142 in tax credits is $742.

TABLE 7.—*State of Maryland study of TJTC, tax revenue generated by additional earnings of TJTC participants*

[Computed on total additional earnings of $351,648]

Income tax	$23,100
Sales tax	11,622
Gasoline tax	3,975
Tobacco excise	3,671
FICA	46,769
FUTA	7,736
Total	96,874

Taxes include Federal, State, and local.

TABLE 8.—STATE OF MARYLAND STUDY OF TJTC NET TRANSFER PAYMENT DECREASES

Type payment	Rate [1] (percent)	Decrease
Unemployment insurance	8.0	$28,132
Social security (including SSI)	0.7	2,462
AFDC Federal share	1.3	4,571
State welfare (GPA, AFDC, SSI)	1.6	5,626
Food stamps	2.4	8,440
Medicaid Federal share	1.1	3,868
Medicaid State	0.9	3,165
Public housing	0.2	703
Total savings	16.2	56,967

[1] Rate factors are applied to total additional earnings of TJTC participants ($351,648) to determine transfer payment decreases. For example, for each dollar of additional earnings there should be a savings of 0.2 cents in public housing subsidy.

TABLE 9.—*State of Maryland study of TJTC, computation of net cost of credits attributable to TJTC participants*

Average tax credit per participant	$1,142
Net cost to Federal Government after adjusting for add-back provision [1]	857
Less:	
Cost reduction from increased taxes [2]	245
Cost reduction from reduced transfer payments [3]	144
Subtotal	389
Net cost	[4] 468

[1] Maryland used a 25 percent corporate tax rate; if 35 percent were used, this figure would be $742.

[2] $96,874 divided by 396 equals 245.

[3] $56,967 divided by 396 equals 144.

[4] $353 if the 35 percent figure used by Treasury and the Joint Committee on Taxation for average marginal corporate tax rate is used. This would be further offset by any second-year savings, but the Maryland study found any such savings would be slight due to virtually 100 percent turnover of participants during the first year.

Chairman STARK. I was thinking of an amendment, Paul, that would say for Federal employment we would pay a 50 percent bonus to people who qualify for the targeted jobs tax credit in private industry, so that the Government could step up to the bar and participate along with private industry. Would that be an acceptable alternative for the wage board——

Mr. DUNCAN. You wouldn't have much money left for anybody else if you did that.

Mr. SUPLIZIO. I would like to submit that for the record, to decide whether or not there is any conflict involved in answering that, if I could.

[The information follows:]

Through special employment programs for veterans, handicapped, minorities, and youth, the Federal Government is presently creating jobs for many disadvantaged persons. However, it is doubtful that the Federal Government can or should take on the principal role in this area. The principle of public and private sector job creating for the disadvantaged is the same: special efforts are made to provide incentives to hire the hard-to-employ. TJTC and existing Federal programs complement each other in this regard.

Mr. SUPLIZIO. You know, the people whom I represent—I hope your earlier comments did not apply to my clients. They are contractors, and one of them is in your district, and I hope they won't be shot at sunrise.

Chairman STARK. No, but it does seem, in a sense, that if the system is going to work, it ought to somehow be more distinctive and the incentives ought to just be there without having to build a cottage industry on cottage industry to make them work.

As I say, I have no real quarrel with creating jobs. I just am having some trouble sorting out of the testimony the real issue of how many of these jobs we create and how much we are just shuffling around among disadvantaged groups, whether it is veterans or whether it is visually or hearing impaired, whether they are people who just have societal problems.

We have heard tremendous testimony about how helpful it is for each of these people or an employer. The real question is, does it deal with any more? For example, one of the things that bothers me, I think it is a given that new industry creates far more jobs, or a small industry, than big companies. The marginal number of employees created by adding a hotel room to an already existing hotel is small. The number of jobs that you would get if you started a new bed and breakfast inn would be, percentagewise, far more, and yet the evidence seems to say that these jobs are all going in larger industry. There is probably good reason for that. They are more sophisticated.

I am just not sure that we are doing as much as we might with what looks like, if you all have your way, a $4 billion expenditure, and that is something that concerns me.

Mr. Duncan?

Mr. DUNCAN. Do any of you know of examples of where the TJTC privilege has been abused?

Mr. SUPLIZIO. No; you know, the Labor Department is supposed to be doing that—they have $5 million a year for that kind of assessment.

Mr. DUNCAN. I know they are supposed to be monitoring it, but I just wondered if you——

Mr. SUPLIZIO. They put out some very stringent guidelines with respect to documentation, but we have not heard of any cases. There have not been any in the press that we know of.

Mr. **DUNCAN**. Do you know of an instance where employees have been forced out of a company by the employer once they finished, say, their first year?

Mr. **SUPLIZIO**. In order to turn over the labor force there?

Mr. **DUNCAN**. Yes.

Mr. **SUPLIZIO**. No. There is high labor turnover already in the economy, and in a lot of the industries that use these jobs.

Chairman **STARK**. The Labor Department is probably just concerned with keeping their employees out of Sister Schloegel's program. [Laughter.]

Mr. **DUNCAN**. I am very much impressed, especially with your program, Sister Schloegel.

Chairman **STARK**. As is Congress.

Mr. **DUNCAN**. Some of our colleagues may be calling you some day.

Mr. **EGAN**. I would like to make one comment, Mr. Duncan, concerning your question.

Mr. **DUNCAN**. Yes?

Mr. **EGAN**. We don't know of any specific instances where veteran employees have been put out on the street as soon as the tax credit has expired or the first year has expired, but one of the things that we recommend is to give the local job offices or the Department of Labor the authority to develop some scale of penalties that might be assessed on employers who are found to be abusing the program, to include prohibiting any employer who is found ultimately to be abusing the program from using the program.

Mr. **DUNCAN**. What is your rate of dropout, those that do not finish their time?

Sister **SCHLOEGEL**. In terms of their employment?

Mr. **DUNCAN**. Yes, ma'am.

Sister **SCHLOEGEL**. The average length of stay on a job would be between 4 and 6 months, the first job. That is usually the first exposure to the world of work.

What we do is, in that supervision, we may terminate them from that job if they begin to experience conflict with supervisors, coworkers. We remove them so we have a positive termination, and then we place them in a second job, and we find the second placement to be extended at least 8 months to a year.

Mr. **DUNCAN**. What about the rest of you? What is your experience, 4 to 6 months, the same? That seems like an awfully short stay.

Mr. **SUPLIZIO**. About 7 months. Of course, if they drop out, it is only the wages that they earned during the 7 months that counts for the credit, so it is not as though they are getting the tax credit for a longer period of time.

But the fact is that a lot of people who are going into the labor market, especially young people, are looking for better jobs.

Mr. **DUNCAN**. Well, if they drop out, though, do they go back to welfare or public assistance?

Mr. **SUPLIZIO**. We don't have any data on how many go back to welfare, but we do have a study that was done by the State of Maryland Employment and Training Administration out there, and they showed that a lot of them went on to unsubsidized employment. They just found a better job.

Chairman **Stark**. Better jobs.

Mr. **Suplizio**. And that is an interesting study, by the way. Dr. Lorenz did not testify today. He testified on the other side, and I would like to provide it for the staff if they are not aware of it.

Mr. **Duncan**. I was going to ask if you would provide us a copy of that.

Mr. **Suplizio**. Yes, sir.

[The information follows:]

The Targeted Jobs Tax Credit In Maryland: An Evaluation

(By Edward C. Lorenz, Ph.D., Maryland TJTC Coordinator, Department of Employment and Training, Baltimore, MD)

SUMMARY

In December, 1982, the Maryland Targeted Jobs Tax Credit (TJTC) office conducted an evaluation of the TJTC Program in the state for the Maryland General Assembly. Because the study tracked the earnings of a sample of certified workers (400 persons) for a year before and after hire, comparing their earnings with those of a control group, it may be of special value to this committee. The evaluation measured earning gains, transfer payment reductions, personal tax payments, and tax credits claimed by businesses.

The conclusion from the evaluation is that the program had a positive impact. Each certified worker earned an average of $888 more per year than the non-certified. Of all certifications, 11% were net additions to the labor force. The average net cost to the federal government of each worker certified was $467.97. By the second year after certification, net costs were off-set by savings. The primary problem with the program has been that comparatively few eligibles participate by being vouchered. TJTC will only have a general economic effect if mass vouchering of eligibles can be stimulated.

There are six minor changes in law and policy which would favor mass vouchering. The IRS Code should be amended to recognize and favor pre-employment vouchering. Both because the 70% LISI figures upon which most eligibility is based have not been updated since 1982 and to ease coordination with the Job Training Partnership Act, alternative income standards should be accepted in the law. Final federal regulations should be issued and extension of the credit should be for several years, guaranteeing program stability. Financial incentives should be provided for vouchering and certification. The base wage upon which the credit is earned should be revised. Finally, an extended validity period for summer youth vouchers should be provided.

A. Purpose and scope of evaluation

This paper focuses upon the actual useage of the Targeted Jobs Tax Credit (TJTC) in Maryland. It is based primarily upon a longitudinal study of program participants conducted by the state TJTC office. By comparing the earnings and labor force participation of a random sample of program participants with the experiences of a control group, the impact of program participation upon the individual worker can be measured. Extrapolating from the longitudinal study, the general economic impact of the program then can be estimated.

The paper first examines three topics: program growth, particularly the relationship of vouchering increases to certification rates; the impact of program participation upon the sample; and the costs, savings, and other results which the government realizes from the program. The examination of the first topic is based upon precise data on all program participants. The second, of course, is based upon the random sample. The third is more speculative but is closely modeled on previous research on comparable populations. The paper concludes with some suggested improvements in the vouchering process.

This paper was originally prepared for the Maryland Department of Fiscal Services, in December, 1982. The Department of Fiscal Services is the budget office of the Maryland General Assembly. The state established a supplemental credit to TJTC available when TJTC eligibles are hired in state Enterprise Zones. The paper has been updated, to include 1983 and 1984 data, and condensed for presentation to the Finance Committee. The conclusions and basic findings have not been changed.

B. Program growth

The table below shows the annual (federal fiscal year) vouchering and certification statistics since the start of the program:

TABLE 1

Year	Vouchers issues	Certifications
1979	1,497	696
1980	6,190	2,878
1981	6,558	2,948
1982	15,025	5,196
1983	30,447	10,416
1st quarter 1984	8,073	2,704

Note: These figures do not include cooperative education students, who are not vouchered. Certifications of cooperative education students were: 1979, 144; 1980, 3,743; 1981, 4,270; 1982, 452; 1983, 605. The great change in numbers certified from 1981 to 1982, reflects the restriction of this group to only low income youth.

A key date in reviewing program growth is September 30, 1981. The elimination of retroactivity, the addition of the laid-off CETA worker group, and the consolidation of the WIN/Welfare Credit contained in ERTA made direct comparisons of 1982 figures with earlier statistics difficult.

Generally, the following trends may be noted in these figures. Until the beginning of 1981, slow growth occurred. At that time, the first of several staff reductions took place in offices that determined eligibility. Thus in the last six months of FY 1981 an average of 463 persons were vouchered each month, compared to 516 in all of FY 1980 and 630 in the first six months of FY 1981. With further staff reductions in all cooperating agencies, 1982 began with rather stagnant statistics.[1] For various reasons, most importantly the introduction of a new automated eligibility determination process, growth returned in the Winter of 1982 at much greater levels than ever before and has continued without interruption.

For the last half of 1982, an average of 1,755 persons were determined eligible each month. This growth is all the more remarkable given the ending of retroactivity.[2] Even when the two new groups, laid-off CETA workers and WIN participants, are subtracted from the totals, the 1982 total was 182 percent of the 1981 figure. Most of this growth was a result of phenomenal growth in disadvantaged youth vouchering, which increased 250 percent over 1981.

In 1983 and the first quarter of 1984, this growth continued. An average of 2,537 persons were vouchered each month in 1983, two thirds in the last six months of the year. By 1983 a cyclical growth pattern was evident. During the Summer, vouchering and certification activity increases greatly, declining slightly in the Fall. The following Spring, growth resumes, reaching levels much greater than in the previous year. Thus, the monthly vouchering levels have changed from 1,675 in the first six months of 1983 to 3,399 in the Summer of 1983, down to 2,691 in the first three months of FY 1984.

The trends in certification statistics are quite similar to those for vouchering. The decline in vouchering in the second half of 1981 and the great growth since then are mirrowed in the certification statistics. This fact is more noteworthy than it may appear on its face. With the end of retroactivity and the deepening recession, one expectation was that vouchering would increase, as it did, but certification would fall, as it did not. In 1980, 119 certifications were issued in an average month, 46 percent of which were retroactive. By 1981, that figure had grown to only 131, with the same rate of retroactivity. With no retroactivity, an average of 331 persons were certified in each of the last six months in 1982. In the third quarter of 1983, including the peak Summer hiring period, 1,300 persons were certified each month.

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[1] See The Wall Street Journal, Dec. 16, 1981, p. 1, on experience elsewhere.

[2] On the abuse of retroactivity see: "Repeal the Jobs Tax Credit," The Washington Post, April 23, 1981; Letter from Charles B. Rangel, "In Defense of the Targeted Jobs Tax Credit," in The Washington Post, May 9, 1981; Jane Carmichael, "The Bounty Hunters," Forbes (July 20, 1981); on Maryland and national retroactive statistics see: "Retroactive Certifications," U.S. Department of Labor, U.S. Employment Service, Office of Program Review, July 7, 1981, in this listing Maryland ranked eighth of all States and third among large industrial/urban States, after Michigan and Missouri, in the lowest rate of retroactivity.

While a great growth in certifications is to be expected, considering the great increase in vouchering, the improvement in the ratio of vouchered persons that were certified is significant. This improvement is not evident from the vouchering and certification totals listed in Table 1. Those totals before 1982 include retroactive vouchers, which in every case result in certification. If such vouchers and the corresponding certifications are eliminated, the figures from earlier years can be compared with those for the last three years. In 1981, when only 5,195 vouchers were produced before job seekers secured employment, 31 percent of the vouchered individuals found employment, under TJTC. In 1983, with over 30,000 persons being vouchered, the certification rate had increased to 34 percent. If the WIN/Welfare category is removed, a group with an especially low rate of certification, and one not present in 1981, the 1983 rate is 38 percent. The important conclusion to be drawn from this improvement is that the labor market for vouchered workers has been positively affected by the great increases in vouchering. Of course, the figures above only show that the vouchered worker's chance of securing a job improved with greater vouchering. That fact does not necessarily mean the worker's plight has been improved. The next section focuses upon the improvement of earnings levels as a result of being hired under TJTC. To learn if workers hired under the credit get any benefits other than a job requires tracking the workers longitudinally from before employment through a considerable time after employment began.

C. Impact of program participation

To assess the impact of participation in TJTC, a significant sample of persons certified under the program was randomly selected and tracked over a two year period, one year before and after employment. The income and work experience of that sample was then compared to the experience of a similar sample of eligible persons not certified for the program. Specifically, the sample was selected in the following manner.

A significant number of persons were selected randomly from each major targeted group (SSI recipients, CETA workers, and Cooperative Education students were not used; included in the sample were persons from the former WIN/Welfare category, to provide a guide to the success rates of that category). The sample included 754 persons. Approximately half were certified during, the period January 1, 1984-June 30, 1981. The other half were persons determined eligible for the program during that time period, but not certified. The only screening done in selecting the samples was to eliminate retroactively certified persons (since that type certification is no longer possible) and to restrict the maximum sample drawn by targeted group, race, sex, and urban/rural residential status so that the sample would reasonably reflect the major groups participating in the program. The selection of the control group was limited only in that it was to match those certified in these characteristics. Once the sample was selected, wage records from the unemployment insurance wage record files were screened for the period from the end of 1979 to the middle of 1982 to learn how much income each person had.

The criteria selected to measure the impact of program participation was the income in the year before and after placement, for those certified, or eligibility determination, for those never certified. Results were classified in three broad categories. Low income was considered to be actual yearly income below $6,000. Moderate income was between $6,000 and $7,500; and high income was any annual figure above $7,500. Only reportable wages were counted in making classifications. This restriction seems logical, since the degree to which program participation made each worker a successful labor force participant is being measured.

In order to minimize the impact of different personal characteristics upon the results, results were filed separately by targeted group, race, and sex. within the disadvantaged youth sample, the sample was balanced to include like number of urban and non-urban youth in both the certified group and the control group. Since the disadvantaged youth group equals about half of all persons in the program, they made-up nearly half the sample. The number of persons selected from the other groups depended on the number of non-retroactive eligibles available in the first half of 1981 and the need for a balanced, sufficiently large sample. Because of both a lack of proper information and the unique nature of their residency, work releasees were treated as a separate group. For that group and for the WIN/Welfare sample, there is no control group.

The tables on the following page indicate the results of the survey. Generally, it is evident that most persons in the sample had low income in the year following certification or eligibility determination. Given the age and background of most of the eligibles, perhaps these figures are not surprising. From an administrative perspective, they indicate the eligibles were genuinely from the intended populations. A more significant fact, from a program evaluation standpoint, is the fairly small, yet consistent, difference in the rate with which certified and non-certified persons achieved moderate and high income levels. Some of the key differences are reviewed in detail below; however, the overall difference, 26 percent for those certified and 16 percent for those not, indicates the general trend.

ANNUAL INCOME YEAR FOLLOWING CERTIFICATION (SAMPLE)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-3	D-4	G-1	G-2	G-3	G-4	** P-1	** P-2	** W-3	** W-4	TOTAL
$ above $7,500/yr.	9	2	10	4	3		1				5		7	1		1	1		1		7		3	2	57
$ $7,500-$6,000/ yr.	5	2	10	3	1		4		2		6		3	1	2				2		1	1	4	5	52
$ under $6,000/yr.	25	3	58	37	5		13		5		29	1	12	12	7	1	5	4	1	6	12	20	10	21	287
TOTAL	39	7	78	44	9		18		7		40	1	22	14	9	2	6	4	4	6	20	21	17	28	396

ANNUAL INCOME YEAR FOLLOWING ELIGIBILITY (CONTROL GROUP)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-2	D-4	G-1	G-2	G-3	G-4	TOTAL*
$ above $7,500/yr.	5	1	9	1	2		1		1		2		4					1		3	30
$ $7,500-$6,000/yr.	4	1	5	5			1		1		2		1								20
$ under $6,000/yr.	28	8	64	37	6		16		5		36	1	25	16	6	2	6	3	5	2	266
TOTAL	37	10	78	43	8		18		7		40	1	30	16	6	2	6	4	5	5	316

CODES: A-Disadvantaged youth B-Disadvantaged Vietnam vet. C-Ex-felon D-Voc. Rehab. Client G-Gen. Asst. Recipient P-Prison Work Release W-WIN/AFDC Recipient 1- White/Male 2- White/Female 3-Black/Male 4-Black/Female

*Note on totals: Totals reported are slightly different for pre- and post-1981 periods due to unemployment wage record system failure to generate reports on every individual initially selected for the sample and control group. In order to avoid bias in reconciling numbers, small differences in totals and in specific group/sex/race categories are accepted.

** There was no comparable control group for the pre-release and WIN/AFDC for both logical and procedural reasons. Since all pre-releasees finding private sector employment were certified, there was no population to select a control group. The nature of WIN records did not allow for identification of an acceptable control group.

Specifically, several groups did much better when certified than when not. While only 10 percent of the non-certified vocational rehabilitation clients achieved moderate or high incomes, 32 percent of the certified did so. Perhaps more importantly, blacks and women achieved moderate and high income in the vocational rehabilitation category, when certified, but not when placed without the tax credit. Among ex-felons, black male felons did much better when certified than when not, while white males actually did worse. Other than the white male offenders, the only other groups not to benefit from certification were black, female disadvantaged youth and female general assistance recipients. Although lacking a control group with which to compare them, work releasees did not benefit greatly from participation in TJTC, while WIN/Welfare participants had success rates comparable to the more successful targeted groups.

While there are low rates of achieving income over $6,000 in the year following certification or eligibility determination, the figures for the year before (January, 1980—December, 1980) are much lower. As the table on the following page shows, few of the participants in the sample had incomes over $6,000. Apparently because of the youthfulness of the sample (or because ex-felons had just been released from prison), 201 of the 703 persons whose 1980 incomes were checked, had no reported income, compared to 62 of 712 whose post-certification/eligibility determination incomes were checked.

ANNUAL INCOME YEAR PRECEEDING CERTIFICATION (SAMPLE)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-3	D-4	G-1	G-2	G-3	G-4	** P-1	** P-2	** W-3	** W-4	TOTAL
# above $7,500/yr.	2		1										2										1		6
# $7,500-$6,000/ yr.	2		1	1			1				1		1											1	8
# under $6,000/yr.	35	7	76	43	9		17		7		39	1	19	14	9	2	6	4	4	6	20	21	16	27	382
TOTAL	39	7	78	44	9		18		7		40	1	22	14	9	2	6	4	4	6	20	21	17	28	396

ANNUAL INCOME YEAR PRECEEDING ELIGIBILITY (CONTROL GROUP)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-2	D-4	G-1	G-2	G-3	G-4	TOTAL*
# above $7,500/yr.	4			1			3				2		3								13
# $7,500-$6,000/yr.	1		3	1	1				2		1				1				1		11
# under $6,000/yr.	32	9	71	41	7		14		5		37	1	27	16	5	2	6	4	4	4	285
TOTAL	37	9	74	43	8		17		7		40	1	30	16	6	2	6	4	5	4	309

CODES: A-Disadvantaged youth C-Ex-felon G-Gen. Asst. Recipient W-WIN/AFDC Recipient 1- White/Male 3-Black/Male
B-Disadvantaged Vietnam vet. D-Voc. Rehab. Client P-Prison Work Release 2- White/Female 4-Black/Female

*Note on totals: Totals reported are slightly different for pre- and post-1981 periods due to unemployment wage record system failure to generate reports on every individual initially selected for the sample and control group. In order to avoid bias in reconciling numbers, small differences in totals and in specific group/sex/race categories are accepted.

** There was no comparable control group for the pre-release and WIN/AFDC for both logical and procedural reasons. Since all pre-releasees finding private sector employment were certified, there was no population to select a control group. The nature of WIN records did not allow for identification of an acceptable control group.

Once one overcomes the surprise at the extremely low rates at which persons in the sample earned merely $6,000 per year, an analysis of the differences between the groups, particularly in the post-certification/eligibility determination period, can reveal subtle, but important, results of program participation. Most obvious is the fact that the rate certified workers achieved income above $6,000 was 71.9 percent greater than the rate for non-certified. This statement is not intended to mask the fact that the rate at which certified workers achieved such income was discouragingly low. An evaluation of program "impact," using that word intentionally, in place of "success," must be viewed in perspective. The intractable nature of the unemployment problem facing low income labor force entrants and the handicapped make "success rates" at these low levels the expected result.

The following section will attempt to estimate the net costs and savings from the program. Tracking the post-certification/eligibility determination experiences of the certified and the control group, it will focus on the cost in tax credits authorized and the savings resulting from increased earnings and decreased transfer payment use.

D. Costs and savings

In assessing the costs and savings of the tax credit in Maryland, the administrative costs of the program, and the credits earned by employers of the certified sample, have been totalled. Subtracted from this total have been the taxes paid on the increased earnings of the sample, and the reduced transfer payment use by the sample. The result is an approximation of the net costs of the program to the United States Treasury.

The estimation of the costs of the program can be made with much greater certainty than the estimation of the savings. For example, the administrative cost of the program, in fiscal 1981, is known precisely, $139.835. The figure for 1982 will be only slightly higher. The administrative cost, as the credits authorized, are borne entirely by the federal government.

While it is too early to get final tax records from any of the last several years, by calculating the earnings of the certified sample, the credits earned by employers can be estimated with great certainty. Combining that figure with the administrative cost of the program, the total cost for the program in Maryland can be calculated. Of more importance, in evaluating the program, the total cost can be used to compute the cost per placement.

The income records used to compute the credits earned included 396 persons' earnings, 287 of whom earned less than $6,000 in the year following being hired, 52 of whom earned between $6,000 and $7,500, and 57 of whom earned over $7,500. The 287 persons with lower incomes earned $396,018 at the employer for which they were certified. Those employers could claim credits of $198,009, an average of $689.92 per worker. This figure makes clear that many placements under the program do not result in the maximum credit ($3,000 in the first year and $1,500 in the second) being earned. The second year credits earned on anyone in the sample are not known, because the second year has not yet been completed. However, since virtually all of these workers left employment with the certified employer long ago, it is doubtful that more than a handful would be employed at all in the second year.

In contrast to the low income group, which included 72 percent of the sample, the high and middle income groups earned much more in total income, despite their small number. The middle income group, of 52 persons, or 13 percent of the sample, earned $246,290. Because of the maximum ceiling ($6,000) on the wages upon which the credit could be earned, the actual credits were not half this figure but $113,855, an average of $2,189.51 per worker. The average is less than $3,000 because some workers left the certified employer and continued employment with another business. For the high income group, the total earnings of the 57 workers were $412,828 and the total credits, $140,345, an average of $2,462.19. The total credits authorized for the 396 workers were $452,209. Avg $1,142 per cert.

Extrapolating from these figures, the total credits authorized in 1981 can be estimated. During the fiscal year, 2,948 workers were certified. The total credits would be approximately $3,346,000. Avg $1,135 per cert. Actually, the sample used for this evaluation is not typical of all persons certified in 1981. Excluded from it, in order to make it similar to those being certified in 1984, were retroactively certified persons and cooperative education students. Looking at the much larger group certified in 1983, 10,416 persons, in the year following certification, avg $1,132 per cert. approximately $11,787,159 in credits would result. Obviously, many variables could alter this figure. However, it is probably a good guide to the total.

These figures are not the total tax expenditure resulting from the credit. Because of the add-back provisions of the federal credit, reducing the employer's usual wage deduction by the amount of the credit, the net cost to the tax system is less than the figures above. For example, a $3,000 credit authorized at an employer in the 46 percent bracket, costs the federal goverment only $1,620.00. Without access to employer tax returns, it is impossible to estimate with precision the impact upon cost figures of the add-back provision; however, it would be reasonable to assume at least 20% of the authorized credits are off-set by this provision. The total cost in Maryland of the program, in 1983, therefore, would be reduced to under $9,500,000.00. In 1981, the estimated cost would have been under $2,700,000. $908 per cert.

Limiting this cost analysis to the certified sample, where specific numbers are known, costs and savings per worker can be computed. To learn net earnings attributable to the tax credit, the difference in total earnings between the certified sample and the control group must be determined. With these numbers known, net federal, state, and local tax increases resulting from the credit and net federal and state transfer payment savings can be calculated. It is even possible to estimate the amount of extra disposable income generated in the state because of the credit.[3]

The first item to be computed is net earnings resulting from the credit. This figure was developed by totaling the incomes, from all sources, of the certified sample and comparing it to the total of the control group. Since the two groups differed slightly in total numbers, the average incomes were computed, compared, and the net difference used to calculate the net earnings increase. The average income for the certified group was $3,932.00. For the control group, $3,044.00, a net difference of $888.00 multiplying this figure by the total number of persons in the certified sample, 396, the total net income increase for the sample was $351,648, in the year following certification. From these income figures, estimates of net taxes paid, transfer payment savings, and net cost per person certified can be developed.

Taxes can be estimated using our knowledge of family size, income, and tax rates, to determine income taxes, and using Bureau of Labor Statistics, Consumer Expenditure Survey data, to estimate sales and excise taxes. FICA and Unemployment Insurance (UI) taxes can be estimated from average tax rates. Since most persons in the sample were in families of one, and where more members exist it can be assumed the income of the additional family members may off-set any savings from increased deductions, the estimated income taxes can be computed from the tax tables fairly easily. The net federal, state, and local income taxes paid by the certified workers was calculated by subtracting the taxes estimated to have been paid by the control group from the taxes estimated to have been paid by those certified. Offsetting any overestimate due to the single tax payer assumption, should be taxes paid on income not in the wage record system.

Sales, gasoline, and tobacco excise taxes are estimated from the Consumer Expenditure Survey, using applicable state and federal tax rates. The table below shows the tax increases attributed to the improved earnings of the sample.

Net tax revenue increases—Certified sample

Income taxes:	
Federal	$15,000
State	5,400
Local	2,700
Total income taxes	$23,100
Sales (5 percent)	$11,621.96
Gasoline:	
Federal	$1,696.35
State	2,278.68
Total gasoline taxes	$3,975.02
Tobacco Excise:	
Federal	$2,855.38

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[3] Robert Jerrett, III, and Thomas A. Barocci, Public Works, Government spending, and the Job Creation: The Job Opportunities Program (New York: Praeger Publishers, 1979), provided the model followed here to compute cost and savings. Wherever possible figures developed from the longitudinal sample were used as a guide. In a few cases, where data was not available from the TJTC sample, Jerrett and Barocci's estimates were used.

State	815.82
Total tobacco excise	$3,671.20
FICA Total (½ employee, ½ employer)	$46,769.18
Unemployment insurance:	
Federal	$1,054.94
State	6,681.31
Total unemployment insurance	$7,736.25
Total taxes	$96,873.61

For example, it is estimated that 66.1 percent of disposable income is subject to sales tax. At the low incomes dealt with in this study, all additional income is disposable. Therefore, Maryland sales tax revenue increases attributable to the tax credit should be equal to N×.661×.05 where N is the net earnings increase, $351,648. The result of this computation is $11,621.96 For gasoline taxes, the net state savings were $2,278.68 and the net federal savings, $1,696.35. For tobacco excise, the state figure was $815.82, the federal, $2,855.38. Using the applicable FICA rate, the employee contribution should have been $23,384.59, with employers contributing a like figure. For UI taxes, the state should have received an additional $6,681.31; the federal fund, $1,054.94.

The total transfer payment savings, which are listed on the table on the following page, with the percentage of net earnings increase used to calculate the savings under each category of payments indicated. For example, for each dollar of additional earnings there should be a savings 0.2¢ in public housing subsidy. Total transfer payment savings on the $351,648 in additional income should be $56,966.97. To check these estimates, the actual claims of unemployment insurance of the control group and the sample were compared. The certified sample had filed 19 percent less claims. Of course, both the tax revenue increases and transfer payment decreases computed above are totals of federal, state, and local savings.

Without a state credit comparable to TJTC, Maryland undoubtedly realizes a net gain from the program. Using the estimates above, Maryland should have realized $26,797.77 in increased taxes and $36,923.03 in reduced transfers. These figures total $63,720.80 or an average of $160.91 per person certified. Multiplying $160.91 by the number of persons certified in 1981, the total state savings from the program were about $500,000.

NET TRANSFER PAYMENT DECREASES—CERTIFIED SAMPLE

Payment	Decrease	Rate (percent)
Unemployment insurance	$28,131.83	8.0
Social security (including SSI)	2,461.54	.7
AFDC Federal share	4,571.42	1.3
State welfare (GPA, AFDC, SSI)	5,626.37	1.6
Food stamp	8,439.55	2.4
Medicaid Federal share	3,868.13	1.1
Medicaid State	3,164.83	.9
Public housing	703.30	.2
Total savings	56,966.97	16.2

While the state realizes only savings under the credit, the federal government experiences savings and lost tax revenues. Reviewing the figures relative to the certified sample, $452,209 in credits were authorized for the 396 persons hired. Totaling estimated tax and transfer savings, this figure can be reduced by $153,840.58. In addition, subtracting the estimated 25 percent credit reduction, resulting from the add-back feature of TJTC, gives a net cost of $185,316.17. Dividing that amount by 396, gives an average cost per certified worker of $467.97. There are several factors which must be considered before accepting the $467.97 figure as final. First, it would be increased by any second year credits. Based upon the known first year turn-over, this second year adjustment should be slight. The average cost would be reduced by welfare savings greater than those estimated above. Since the sample used to develop the welfare savings estimate included a significantly smaller percentage of welfare recipients than under TJTC as a whole (9 percent compared to actual 17 percent, it is probable that welfare savings are somewhat greater than this study estimates.

E. *Vouchering Improvements:*

Generally, the results of this evaluation reflect positively on the tax credit as an effective wage subsidy. At a minimum this evaluation shows the credit did help those vouchered for the program. While it is a policy decision, whether the benefits are worth the costs, it would appear the $467.97 cost per certification is a bargain, especially since the extra disposable income put into the economy has not been fully measured here as a factor to balance the small net cost. There is one important factor in measuring the impact of the credit which has not been evaluated thus far in this study which is essential before future benefits and costs can be evaluated. That is, to what extent can vouchering be expanded.

Two studies of TJTC, done for the Senate Finance Committee hearings on the program in 1981, raised fundamental questions relative to the eligibility determination process; which as yet have not been fully answered. The study by John Bishop and that of GAO found only a small part of the eligible population was vouchered.[4] We know in Maryland, which has one of the better vouchering records, that only about 20 percent of eligibles in the labor market take advantage of the program. Considering that many among this twenty percent do not find a job while their voucher is valid or loose the job they find shortly after hire, even it overestimates the impact of the program on the structurally unemployed. This evaluation would suggest that a great increase in vouchering could be attempted without saturating the labor market with eligibles. In fact mass vouchering that saturates the labor market with eligibles is an ideal.

Great increases in eligibles in the last year who have been vouchered, especially youth, have begun to convert the credit from an isolated incentive for hiring a few lucky or especially interested job seekers into a generalized incentive leading some employers to consciously alter human resource plans. If even larger numbers of eligibles were available, so that employers could count upon finding them when openings occurred, some employers might go further in altering plans to automate certain functions which could be better performed by entry level workers bearing a subsidy. One business, in Maryland, which is very conscious of the summer program under the credit, has begun offering summer discounts to its customers so that more work can be found in the period when it can hire many eligible youth. Such actions will only become widespread and take on macro-economic meaning if mass vouchering occurs.

There are six legislative steps that could be taken to facilitate mass vouchering. All are minor and are technical rather than substantive. They are:

(1) *Recognition of Vouchering in IRS Code.*—Currently, the tax law refers only to certification, among "forms" used in the program. Yet, the voucher is the key form under TJTC, as far as job seekers are concerned. If section 261(c)(1)(15(A)(i) were amended to remove the word "certification," inserting in lieu thereof "voucher," legal recognition would be given to the voucher. Currently, a voucher produced before employment begins is treated as no more than a letter of request for certification. If an employer hires a youth on a voucher but fails to place the voucher in the mail before the close of business, the credit is denied. Yet, an employer who never hires workers with vouchers but rather who hires using pre-TJTC methods of screening can get the credit on any eligible worker he accidentally hires simply by following a policy of sending the state TJTC office a form letter requesting the tax credit everytime a worker is put on the payroll. This has become a classic example of form triumphing over substance. In fact, we would suggest that credits be limited to only those situations where vouchered workers are hired, with perhaps a five day grace period, after hire, when the voucher could be secured.

(2) *Amending Income Guidelines.*—Since the Bureau of Labor Statistics no longer produces the 70 percent Lower Living Standard Income guidelines required to be used as the income standard for economically disadvantaged targeted groups, an alternative income guideline is needed. Because many of the staff responsible for vouchering also make eligibility determinations for the Job Training Partnership Act (JTPA) training programs, the greatest possible correlation of TJTC standards and

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[4] GAO, "Comments on Employment Tax Credits," U.S. Congress, Senate, Finance Committee, June, 1981, 97th Congress, 1st Session, 1981; John Bishop, "An Examination of U.S. Experience with Employment Tax Credits," U.S. Congress, Senate Finance Committee, Subcommittee on Economic Growth Employment, and Revenue Sharing, Hearing on TJTC, April 3, 1981, 97th Congress, 1st Session, 1981, p. 4. See Appendix for samples of a Voucher and related materials.

those of Title II of JTPA would help. For example, in Maryland we have coordinated eligibility for the state enterprise zone tax credit with TJTC, allowing for the use of common forms and procedures.

(3) *Stability in Authorization and Regulation.*—If the program is to be extended, the longer the extension with the fewest substantive changes the better. Since 1979, the program has been plagued by short extensions, leading many employers and agency staff to believe the program has expired at any given date. While there has been recent movement toward developing final regulations for the program, all possible pressure to assure final IRS and Department of Labor regulations and policy handbooks are promptly issued would be helpful.

(4) *Financial Incentives for Vouchering and Certification.*—While the administrative funds for the program have been more than adequate for central office use, we would favor the suggestion of John Bishop that bounties be provided to reward agencies which voucher persons.[5] Additional bounties would be available whenever a voucher led to a certification. Even an amount as little as ten dollars per voucher and fifteen additional dollars per certification would provide a significant incentive to offices serving many eligibles, such as inner city Job Service offices. Such a system would not require additional funding of vouchering agencies but could be implemented as one part of the general allocation process.

(5) *Adjusting Wage Base for Credit.*—Since 1978, the base wages upon which the credit is computed have remained constant at the first $6,000. An adjustment upward to $7,000 would be beneficial. The net cost of such a change would be minimal, based upon our research. Most certified workers do not remain with the initial employer long enough for $6,000 or $7,000 to be paid. However, the most successful hires under the program are at businesses paying between $4 and $5/hour. Such businesses would find a greater incentive to retain eligible workers if this minor adjustment were made. The net cost per certification would be no more than $200 per worker. Such a change would especially promote hiring by manufacturing and other businesses with higher wage rates. Since the recent recession, use of the credit by manufacturers has fallen greatly. Workers in the machine trades constituted 7 percent of all persons certified in 1979 but only 1 percent in 1982.

(6) *Validity Period Extension.*—The law limits the validity period of an eligibility determination (hence of a voucher) to 45 days. While in general this restriction is no problem, such as when the eligibility of a Vietnam era veteran is being determined, it does create a paperwork problem when youth are being vouchered for summer jobs. With forms good for only 45 days and most hiring of youth for the summer taking place within the last two weeks of June, staff of vouchering agencies must produce all vouchers within a few weeks for all summer jobs. For example, last summer, in Maryland nearly 10,000 youth were vouchered for the summer. It is a major problem logistically to process forms on that many persons within a month. A ninety day validity period would allow summer vouchering to begin no later than April 1.

Since this study implies the credit has a significant positive impact upon participants and only a negligable impact upon the federal budget, the expansion of vouchering appears to us to be wise public policy. The six technical changes mentioned above would greatly facilitate this expansion. Attached to this evaluation is a brief review of the vouchering process, from the perspective of the job seeker, with samples of a voucher and vouchering aids which are made available to the job seeker to help in proper use of the voucher. A review of the Appendix might make clear why facilitation of pre-employment vouchering is so vital to the proper growth of the program.

APPENDIX

For the information of the Committee, attached to this report are reduced samples of the tax credit voucher and the vouchering aids used in Maryland. When the voucher is given to a job seeker, it is placed in the voucher envelope. The job seeker is given a sheet of twenty TJTC "Stickers." The voucher envelope shown here is used to help youth find employment. A slightly different version is given to persons not in the youth groups. The envelope serves as a return envelope when an employer hires a qualified job seeker.

The stickers are given to the job seeker for those situations where the employer is not interviewing. If the job seeker only is given an application to complete, he is instructed to peel a sticker off the sheet and place it on the application. When the employer screens applications at a later date, the sticker, which is "red, white, and blue" in color, stands out on the application, hopefully influencing the employer's hiring decision.

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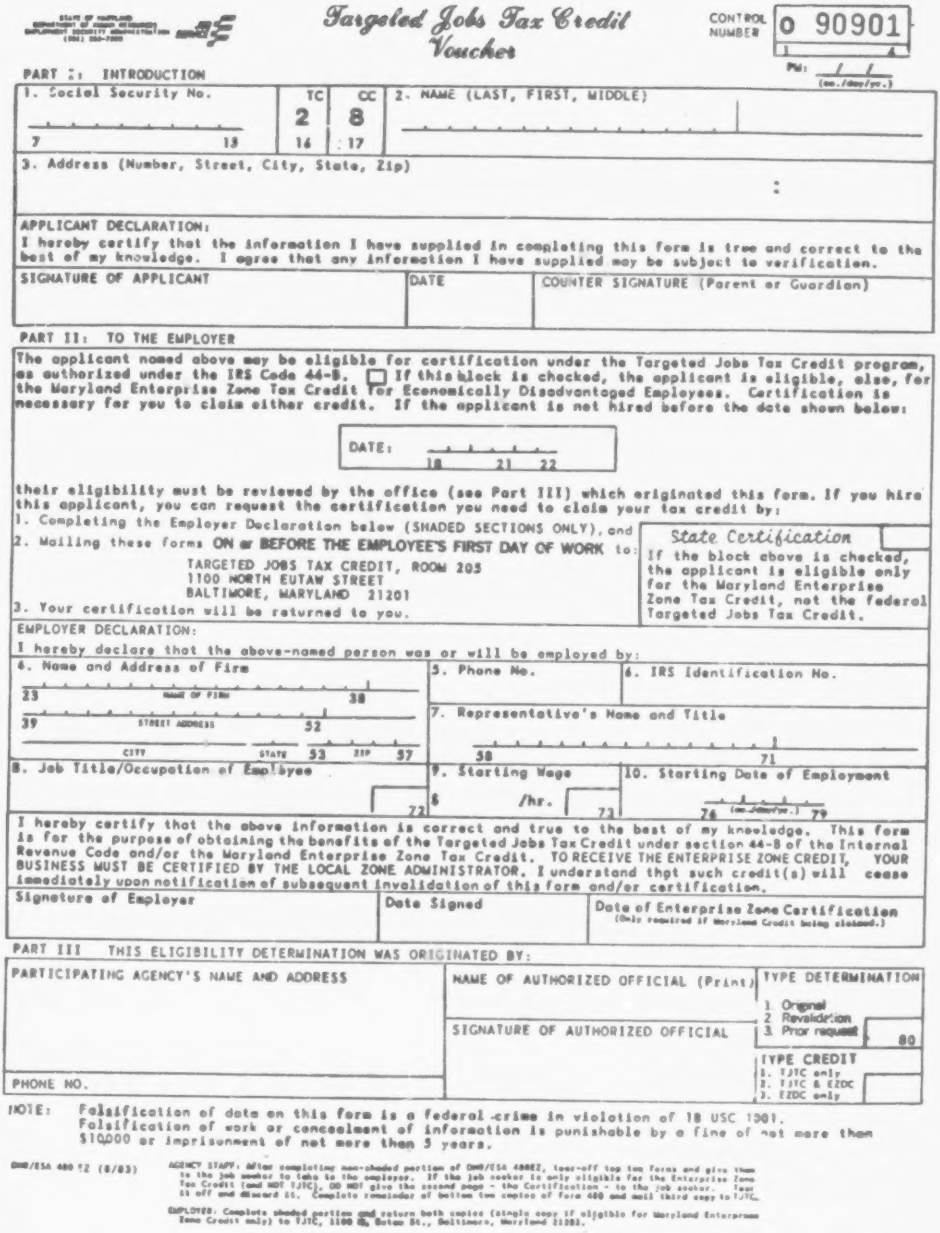
[5] John Bishop, "The Design of Employment Subsidies—Lessons of the U.S. Experience," unpub. paper presented at the 36th Congress on Public Finance and Public Employment, Jerusalem, August 25–29, 1980, p. 16.

Each of these items is designed to help the vouchered applicant sell himself to an employer. Together, they make the voucher the key item in the program, more important than the certification, which merely confirms for an employer that the credit should be claimed.



Targeted Jobs Tax Credit Voucher

CONTROL NUMBER **0 90901**

PW: / / (mo./day/yr.)

PART I: INTRODUCTION

1. Social Security No. 7 13	TC 2 16	CC 8 17	2. NAME (LAST, FIRST, MIDDLE)

3. Address (Number, Street, City, State, Zip)

APPLICANT DECLARATION:
I hereby certify that the information I have supplied in completing this form is true and correct to the best of my knowledge. I agree that any information I have supplied may be subject to verification.

SIGNATURE OF APPLICANT	DATE	COUNTER SIGNATURE (Parent or Guardian)

PART II: TO THE EMPLOYER

The applicant named above may be eligible for certification under the Targeted Jobs Tax Credit program, as authorized under the IRS Code 44-B. ☐ If this block is checked, the applicant is eligible, else, for the Maryland Enterprise Zone Tax Credit for Economically Disadvantaged Employees. Certification is necessary for you to claim either credit. If the applicant is not hired before the date shown below:

DATE: 18 21 22

their eligibility must be reviewed by the office (see Part III) which originated this form. If you hire this applicant, you can request the certification you need to claim your tax credit by:

1. Completing the Employer Declaration below (SHADED SECTIONS ONLY), and
2. Mailing these forms ON or BEFORE THE EMPLOYEE'S FIRST DAY OF WORK to:

TARGETED JOBS TAX CREDIT, ROOM 205
1100 NORTH EUTAW STREET
BALTIMORE, MARYLAND 21201

3. Your certification will be returned to you.

State Certification ☐
If the block above is checked, the applicant is eligible only for the Maryland Enterprise Zone Tax Credit, not the federal Targeted Jobs Tax Credit.

EMPLOYER DECLARATION:
I hereby declare that the above-named person was or will be employed by:

4. Name and Address of Firm 23 NAME OF FIRM 38 39 STREET ADDRESS 52 CITY STATE 53 ZIP 57	5. Phone No.	6. IRS Identification No.
	7. Representative's Name and Title 58 71	
8. Job Title/Occupation of Employee 72	9. Starting Wage $ /hr. 73	10. Starting Date of Employment 74 (mo./day/yr.) 79

I hereby certify that the above information is correct and true to the best of my knowledge. This form is for the purpose of obtaining the benefits of the Targeted Jobs Tax Credit under section 44-B of the Internal Revenue Code and/or the Maryland Enterprise Zone Tax Credit. TO RECEIVE THE ENTERPRISE ZONE CREDIT, YOUR BUSINESS MUST BE CERTIFIED BY THE LOCAL ZONE ADMINISTRATOR. I understand that such credit(s) will cease immediately upon notification of subsequent invalidation of this form and/or certification.

Signature of Employer	Date Signed	Date of Enterprise Zone Certification (Only required if Maryland Credit being claimed.)

PART III THIS ELIGIBILITY DETERMINATION WAS ORIGINATED BY:

PARTICIPATING AGENCY'S NAME AND ADDRESS	NAME OF AUTHORIZED OFFICIAL (Print)	TYPE DETERMINATION 1. Original 2. Revalidation 3. Prior request 80
	SIGNATURE OF AUTHORIZED OFFICIAL	TYPE CREDIT 1. TJTC only 2. TJTC & EZDC 3. EZDC only
PHONE NO.		

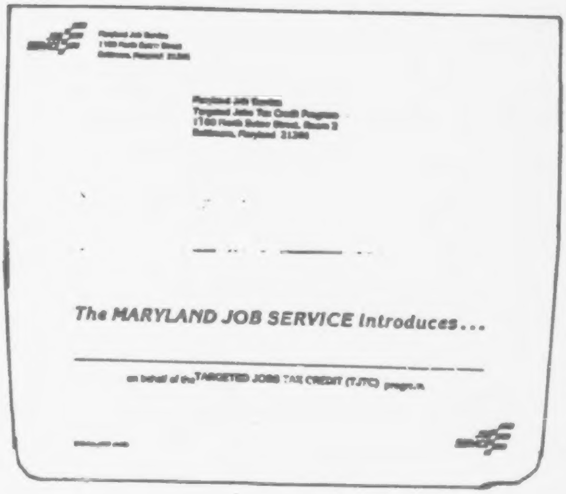
NOTE: Falsification of data on this form is a federal crime in violation of 18 USC 1001. Falsification of work or concealment of information is punishable by a fine of not more than $10,000 or imprisonment of not more than 5 years.

DHR/ESA 480 EZ (8/83)

AGENCY STAFF: After completing non-shaded portion of DHR/ESA 480EZ, tear-off top two forms and give them to the job seeker to take to the employer. If the job seeker is only eligible for the Enterprise Zone Tax Credit (and NOT TJTC), DO NOT give the second page - the Certification - to the job seeker. Tear it off and discard it. Complete remainder of bottom two copies of form 480 and mail third copy to TJTC.

EMPLOYER: Complete shaded portion and return both copies (single copy if eligible for Maryland Enterprise Zone Credit only) to TJTC, 1100 N. Eutaw St., Baltimore, Maryland 21201.

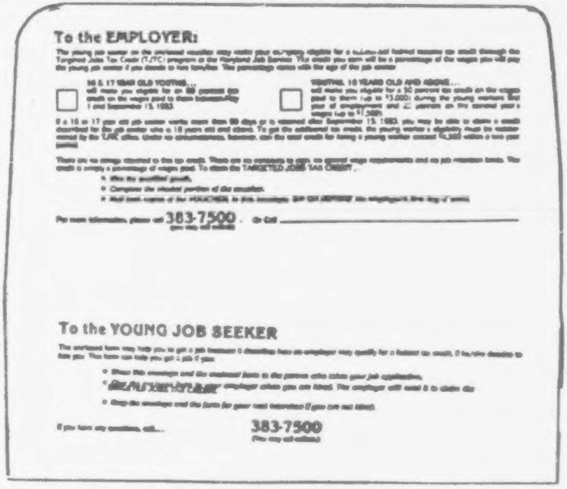
SAMPLE VOUCHER ENVELOPE AND TJTC "STICKERS"



The MARYLAND JOB SERVICE Introduces...

on behalf of the TARGETED JOBS TAX CREDIT (TJTC) program

OUTSIDE OF ENVELOPE
(# 9 size)



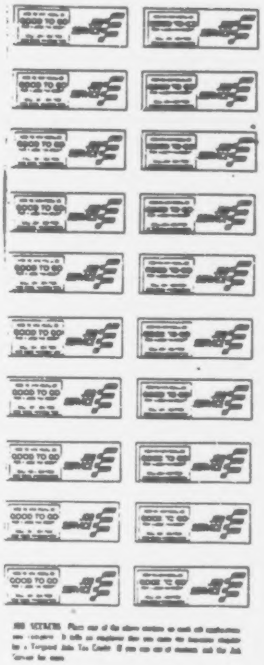
To the EMPLOYER:

For more information, please call 383-7500 . Or Call

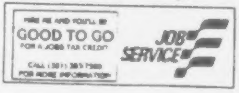
To the YOUNG JOB SEEKER

If you have any questions, call... 383-7500

INSIDE OF ENVELOPE



STICKER SHEET
(reduced from 4½ x 11")



GOOD TO GO
FOR A JOBS TAX CREDIT

STICKER FULL SIZE,
(Colors; red, blue, white)

Mr. **Duncan**. I think that is all I have. Thank you, Mr. Chairman.

Chairman **Stark**. Thank you. I thank the panel very much for their participation.

We will call our final panel: J. Scott Marshall of the American Council of the Blind; Tracy McManus of the National Restaurant Association; Thomas W. Power of the Foodservice and Lodging Institute; and Mary Alice Pappas of the American Hotel and Motel Association.

I have prepared statements from each of you, and without objection, they will appear in the record in their entirety.

I might also add at this point that we have for the record statements from the National Alliance of Business, and Pizza Hut, Inc. I imagine the record will stay open for a week or so to receive printed testimony or responses to questions from the committee.

At this point, I will let you proceed in the order in which you are listed on the witness list.

Mr. Marshall, would you like to lead off?

STATEMENT OF J. SCOTT MARSHALL, DIRECTOR OF GOVERNMENTAL AFFAIRS, AMERICAN COUNCIL OF THE BLIND

Mr. **Marshall**. Thank you very much, Mr. Chairman, Mr. Duncan.

The American Council of the Blind is the largest organization of blind and visually impaired people in this country. We are pleased and privileged to appear before you today to support a multiyear reauthorization of the targeted jobs tax credit and to offer some suggestions as to how this credit could be improved both for the employer as well as to the benefit of handicapped employees.

I think we have to keep in mind—and perhaps it hasn't been said this bluntly today—that TJTC is a subsidy to employers. It is a method by which part of training costs are assumed by Uncle Sam, and I guess the question is whether it is worth it, because somehow I don't think Congress intended $1.25 billion to $3.5 billion just to go to the bottom line of corporate America.

I think it is worth it because disabled people need a preference—a preference in hiring. The President's Committee on Employment of the Handicapped estimates that unemployment among blind and other disabled people ranges from 50 to 75 percent, and this is despite the fact that more and more of us are going college, thanks to what Congress has done on Public Law 94-142 and rehabilitation services. More and more people are going to school and graduating with a degree, with a skill. But there still is not a job there.

I suspect that it has a lot to do with human nature. If you were to look at two equally qualified job candidates in this job market, whom would you select? One that was blind or disabled or one that wasn't? We cannot legislate attitude, gentlemen, but we can legislate a financial incentive to employment.

Again, let me make it clear that we are supporting a reauthorization of the current TJTC. But I think that is not quite enough, and I would like to briefly outline some of the ways that we would like to change the credit to improve it.

We are suggesting that a medical certification of handicap should be an eligibility requirement. It seems rather ridiculous to require a referral by a rehabilitation agency for people who perhaps have never received rehab services or who received VR services long ago. We believe that such a medical certification of handicap would be easier for the employee to obtain and easier for the employer to deal with and for the IRS to administer.

In addition, we believe that the amount of the first year qualified wages should be increased. As has been said here today, the TJTC basically encourages employment of lower skilled minimum wage workers.

Now, many disabled people, like the lady who represented the R&T center earlier indicated, many disabled people have the dexterity or the mobility to be employed at the minimum wage position. But others do not. Other people are better skilled to jobs of mental effort. My gosh, I am a lawyer. I don't think McDonald's would hire me as a hamburger flipper even if you were to give the employer 100 percent subsidy of my wage.

Accordingly, these higher skilled individuals are facing the same employment barriers as these less skilled individuals—barriers of attitude, barriers of concern about cost, the cost of support, a fear—unjustified in the majority of instances—for example, that if you hire a disabled person, your insurance rates are going to go up. That is ridiculous. And also the concern—and this may seem strange to you—but the concern of what are my clients or customers going to think?

Again, we cannot legislate attitude, but we can legislate a financial incentive that will make the pot just a bit sweeter.

The TJTC—and I have just a couple of more points—can be also used as a job retention device. What about the worker who has worked for many years and then becomes disabled? The employer ought to be able to take advantage of the credit at that time if the employer is willing to provide retraining and efforts to allow that individual to retain his job. The societal costs and the human costs of terminating a disabled worker are great.

In addition, finally, Mr. Chairman, the TJTC could be used as an upward job mobility tool. Perhaps the credit ought to be available for the purchase of sensory or other aids needed for job advancement.

We are not talking about the IBM's of the world and the AT&T's of the world. These employers have traditionally had exemplary records in hiring the handicapped, and they can afford, if necessary, to assist in the purchase of aids or to restructure jobs if that is necessary. In some instances, in many instances, it is not necessary, but in some it is.

We are talking, more appropriately, I think, about the smaller employer—after all, small business is the largest employer in this country—in order for disabled people to be hired by these employers who do not have the resources that the larger employers might have.

Mr. Chairman, I think that you have also addressed the question today or raised the issue about job retention, and I would like to close with that, in terms of how long people stay on the job.

I don't have any statistics to give you except perhaps an impression, an impression from my own experience and from the experience of many other disabled people. I think disabled people take jobs very seriously. They know that their job performance on that first job is scrutinized perhaps to a much greater extent than the nondisabled worker, and that if that individual is to leave that employer with a bad record, that stigma, in addition to the stigma of the handicap, is going to live on with them a lot longer than it will for the other guy.

I think, accordingly, that what we are talking about with the TJTC is what business people might call the difference between an ongoing expense, a recurring expense—stuff like SSI and SSDI, the transfer programs that are necessary and that cost this Government so much—and what we might call a capital expenditure, an expenditure that makes money in the long run, like the TJTC does.

Thank you.

[The prepared statement follows:]

STATEMENT OF J. SCOTT MARSHALL, DIRECTOR OF GOVERNMENTAL AFFAIRS, AMERICAN COUNCIL OF THE BLIND

Mr. Chairman: The American Council of the Blind is pleased for this opportunity to testify concerning needed improvements in the Targeted Jobs Tax Credit (TJTC). In summary we make the following recommendations as more fully explained below: (1) The TJTC has opened many employment opportunities for blind, severely visually impaired, and other handicapped people. It should be extended. (2) The credit should be extended to persons who have a medically determinable handicap as well as to handicapped people who are referred by a vocational rehabilitation agency. (3) The amount of the qualified first-year wages on which the credit is based should be raised to at least $20,000. (4) The credit should be available to an employer who retains an employee after the onset of a disability. (5) The credit should also be available for the purchase of sensory and communications aids needed for upward job mobility.

I. TJTC SHOULD BE EXTENDED

The American Council of the Blind is the largest organization of blind and visually impaired people in the United States. For the past 23 years we have worked to improve the lives of this nation's blind and visually impaired citizens through legislation, legal advocacy, and public education. Our members come from all walks of life and reside in all parts of the country. Some of the Council's members own their own businesses; others are employed in a variety of occupations including law, teaching, retailing, and data processing. Unfortunately, many others are unemployed and have encountered numerous employment barriers including the public's frequent misconceptions regarding the capabilities of blind and visually impaired persons; the fear that hiring a blind person will represent a financial burden because of the need to provide reading or other assistance; or simply the irrational concern of "what will my clients or customers think!", an attitude not unlike that faced by many other minority groups 20 years ago. The Targeted Jobs Tax Credit often provides the incentive some employers need to give qualified handicapped job applicants a chance for a job.

The President's Committee on the Employment of the Handicapped estimates that the unemployment rate among disabled people is between 50 and 75 percent, although in few cases is unemployment due to the inability to perform work.[1] It is therefore not surprising to note that disabled people are generally low income individuals. The U.S. Census Bureau recently reported that 26 percent of working age disabled adults have incomes below the poverty line and that this poverty rate is two and one-half times that of nondisabled working people.[2] Yet today blind and other disabled people are better equipped, at least from an educational standpoint, to take their rightful place in the work force. More and more children are receiving special education services at an earlier age, thereby permitting even the most severely handicapped youngsters to achieve to the maximum extent possible. Today college, vocational and other training programs are open to more blind and other disabled people than ever before, thanks in part to Section 504 of the Rehabilitation Act of 1973. Despite this progress, disabled people are still not covered by the Civil Rights Act of 1964 and therefore do not enjoy the same protections against employment discrimination available to other minority groups.

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[1] President's Committee on Employment of the Handicapped, quoted in Handicapped Rights and Regulations, Vol. 4, No. 7, April 5, 1983, p. 49.

[2] U.S. Census Bureau, Labor Force Status and Other Characteristics of Persons with Work Disability, Series P-23127 (1982); See also "Physical Disability and Public Policy," Scientific American, Vol. 248, No. 6, June 1983, p. 42.

Therefore, there is a real need to continue to provide the TJTC as a concrete incentive to encourage employers to open opportunities to handicapped workers.

This incentive to employing handicapped workers provided by the TJTC is extremely cost effective. In 1977 alone, this nation spent over $63 billion on working age disabled people. Of this total $47 billion was spent on welfare and other support programs; $13 billion was earmarked for medical care and only about $3 billion was paid for direct services such as vocational rehabilitation.[3] In January 1984 the average disabled worker and his family received $869 per month in Social Security Disability Insurance benefits ($10,428 annually). The Social Security Administration further reports that there are 2.6 million disabled workers and 1.3 million spouses and children of disabled workers currently on the benefit rolls.[4] These Social Security figures do not, of course, include the cost of Medicare, Medicaid, Food Stamps and/or housing subsidies which may be provided to disabled people. Thus, unemployment of disabled people is costly to society as a result of the cost of support programs, not to mention the cost of lost tax revenues. Unemployment is also costly from a human perspective if qualified disabled people cannot find work and therefore are prevented from participating fully in their communities. Therefore, in these times when cutting the federal budget is necessary, the TJTC should be extended. Its small cost is far outweighed by savings to the federal government.

II. IMPROVEMENTS IN THE TJTC ARE NECESSARY

The Targeted Jobs Tax Credit has not been used to its fullest potential to help handicapped people overcome barriers to employment. A simplified and expanded TJTC could operate to encourage, particularly small businesses, to hire disabled people. In addition, the credit could be used as an incentive to job retention after the onset of a disability and could also be used as an incentive to the promotion of disabled people after initial employment. The remainder of our testimony will focus upon specific ways in which the TJTC can be improved to meet these objectives.

A. A medical certification of handicap should replace referral by a vocational rehabilitation agency within the definition of a targeted group

Under current law and regulations, an employer qualifies for the TJTC if the disabled person is referred by a vocational rehabilitation agency pursuant to the individual's written rehabilitation plan. In addition, approval of the state jobs services office must also be obtained in order for the employer to qualify for the credit. These steps represent an unwarranted administrative and paper work burden upon both the employer and the prospective employee.

Some handicapped job applicants, for example, those entering the job market after high school may never have received rehabilitation services from a vocational rehabilitation agency. Other prospective employee's may no longer have active case files at vocational rehabilitation agencies. In order to have his/her file reopened, the disabled person may need to cut through considerable bureaucratic red tape. From the employer's point of view, the amount of the current credit is small compared to the magnitude of the complexities involved in qualifying for it. The appropriate vouchers and/or approvals must be obtained from two government bureaucracies: the vocational rehabilitation agency and the state jobs services office. In addition, the employer may find that the prospective disabled employee was not referred by a vocational rehabilitation agency or that the job being applied for is not contemplated by the individual's written rehabilitation plan. Finally, unless all of these eligibility requirements are satisfied within a relatively short time frame, the employer may find that he has hired a disabled employee but nevertheless cannot qualify for the credit.

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[3] "Physical Disability and Public Policy," Scientific American, Vol. 248, No. 6, June 1983, p. 43.

[4] Social Security Facts and Figures, published by the Social Security Administration, January 1984.

We recommend that a certification of a medically determinable handicapping condition will alleviate these difficulties and will greatly simplify administration of the TJTC. A suggested definition of the term "handicapped individual" is as follows: "an individual who has a medically determinable physical or mental impairment which substantially limits one or more of such individual's major life activities and which has lasted or can reasonably be expected to last for a continuous period of not less than 12 months." The Secretary should be empowered to prescribe regulations specifying the form and extent of acceptable medical proof which could either be filed with the return or produced by the taxpayer upon audit.

A medical certification process is currently used by the Internal Revenue Service to prove legal blindness for purposes of qualifying for an additional exemption available to legally blind persons or those claiming them as their dependents. We are unaware of any abuses associated with this certification procedure. In addition, because of the stigma associated with a handicapping condition, job applicants are generally reluctant to disclose a handicap to a propective employer, unless there is an advantage to the prospective employee in doing so, e.g., a need for a reasonable job accommodation or other assistance. Thus, a medical certification procedure carries with it a built-in safeguard against abuse and will operate particularly in those cases in which the employer needs a hiring incentive the most; namely, situations in which the prospective employee needs a job accommodation or other assistance. Adoption of this recommendation will also greatly simplify the paper work burdens connected with the administration of the TJTC to the benefit of both employers and employees.

B. The amount of the qualified first-year wages should be increased, thereby encouraging employment of more highly skilled disabled workers

We recommend that the amount of the first year's qualified wages should be increased from $6,000 to $20,000. This means that the cost to the Treasury for the TJTC would be a maximum of $10,000 before adjustment as a result of the employer's tax rate and salary expenses. Given the cost savings in Social Security and other benefits, the net effect to the Treasury would most certainly be in the plus column. If the first year credit amount were raised, the second year credit could be eliminated since training and other assistance would generally be provided during the first year. Adoption of this recommendation will also encourage employers to hire more highly skilled disabled people. As noted earlier, many blind and other disabled people are now graduating from college or other vocational programs. These individuals face numerous employment barriers, yet the amount of the qualified wages on which the credit can be taken is currently only $6,000—less than minumum age. The current TJTC encourages employers to hire minimum wage employees but is not as significnat an incentive to hire more highly skilled workers who face the same employment barriers. In addition, while some disabled people may be physically able to perform some types of lower skilled minimum wage jobs, other individuals may be more suited to jobs involving greater mental effort and less physical activity.

III. THE TARGETED JOBS TAX CREDIT COULD BE USED TO ENCORUAGE JOB RETENTION AND UPWARD JOB MOBILITY

Under current law, the TJTC is available only for new hires and does not assist the employer faced with an employee who becomes disabled after initial employment. Large corporations are in a much better position than the small employer to accommodate employees' needs after they become disabled. This accommodation may include simple job restructuring, retraining or the provision of a sensory or communication aid. This accommodation can represent a cost to an employer. The employer may either incur the expense on behalf of the employee, require the employee to bear the cost, or simply may terminate the employee. Termination of a worker causes untold frustration and anguish to the worker and his or her family, not to mention the societal cost of welfare and unemployment benefits.

We recommend that the TJTC should be available to employers who retain an employee after the onset of a severe disability. Given the present job market, employers may find it easier to simply terminate a disabled employee and to replace him/her with another worker, particularly in lower skilled jobs. Availability of the credit in these situations may help to avoid this all too often tragic consequence of a disability.

We further recommend that the TJTC can be used as a tool to encourage upward job mobility of disabled workers. The credit could be used to make it more attractive for employers to purchase sensory or communications aids such as magnifiers or special computer interface devices needed for a disabled person to advance on the job. Here again the small employer may not be in a position to provide sensory or communications aids to an employee. Rehabilitation agencies are unable to provide assistance since vocational rehabilitation funds usually cannot be expended after initial placement. Although many disabled employees purchase their own aids using their own funds, others cannot afford to do so. Alternative financing arrangements such as loans or foundation assistance are also very limited. Thus, we need to explore ways in which the TJTC can be used to assist disabled people to progress not only into a job but also along the career ladder.

IV. CONCLUSION

The American Council of the Blind looks forward to working with the Committee to develop these and other proposals presented today as the reauthorization of the TJTC continues. Since most working people in the United States are employed by small business, we must focus on how the TJTC can better be utilized by this largest group of employers. We also believe that blind and other disabled people face unique employment barriers not faced by other individuals who are also members of targeted groups. For example, a welfare recipient may not need a sensory aid in order to perform a job. In addition, members of the other targeted groups may have a greater number and variety of jobs to choose from since these individuals are not restricted in terms of mobility, dexterity, hearing or sight. My point, Mr. Chairman, is simply this: we must continue to explore and to develop ways of encouraging employment of blind and other disabled people who face unique barriers to employment. Finally, Mr. Chairman, I think our President summed it up best during a recent signing ceremony at the White House in which a proclamation declaring the next ten years as the decade of the disabled was signed. The President said on November 28 and we wholeheartedly agree "whenever government puts welfare and charity before the opportunity for jobs, it misses the mark."

Thank you for allowing us to share our views with you today.

Chairman **Stark**. Thank you very much, Mr. Marshall.

Tracy McManus of the National Restaurant Association, please proceed.

STATEMENT OF TRACY M. McMANUS, GOVERNMENT PROGRAMS COORDINATOR, MORRISON, INC., ON BEHALF OF THE NATIONAL RESTAURANT ASSOCIATION

Mr. **McManus**. Thank you, Mr. Chairman, Mr. Duncan.

The National Restaurant Association, as you have mentioned, has filed a statement on behalf of the association and the company I represent, Morrison, Inc.

Morrison's is primarily a cafeteria restaurant company based in the Southeastern United States. We are a company very familiar with economic hard times, since our beginnings were from the era of the Great Depression.

Today we employ nearly 15,000 individuals within our company. I as the government programs coordinator for Morrison's am responsible for assisting our managers in the administration of the Targeted Jobs Tax Credit Program.

Basically, it is my responsibility to tell them how the program works, who they need to contact, and how to get involved.

In 1983, Morrison's certified some 1,800 employees for the Targeted Jobs Tax Credit Program. These individuals last year had earnings of $6.8 million. Almost half of the TJTC-certified employees were employed through job orders placed with the job service or the State employment office.

Twelve percent, or 215 certified employees, were hired through vocational rehabilitation services. This has led to Morrison's nomination as handicapped employer of the year in the States of Alabama and Ohio.

Another 325 employees have been certified as economically disadvantaged cooperative education students. Morrison's exercises by policy the hiring of full-time, permanent employees. Prior to the Targeted Jobs Tax Credit Program, opportunities were not available to part-time high school students.

My point in outlining the participation in each of these groups is this: Prior to 1978, before the Targeted Jobs Tax Credit Program, only one in ten of our 450 managers used the job service, vocational rehabilitation, veterans' offices, work release centers, and high schools as places to seek employees.

Today each of our managers has an established and working relationship with these agencies or offices.

Many of the structurally unemployed have given up knocking on the employer's door. Our managers have been encouraged through TJTC to use these additional sources in seeking employees, thereby seeking out the employee who normally had given up looking for employment.

A second point: Established training progams within our company and the use of cross-training for promotional purposes has helped us to retain a substantial number of TJTC-certified employees. Over 600 TJTC employees have been with our company for over 2 years. They are represented at all levels of our company; that is, from the manager to the management trainee to the office coordinator to the fry cook, to the chef station, the storeroom, and even the dishwasher.

Turnover among our hourly employees ranks at 105 percent per year. This is very respectable for our industry.

As an added note, turnover among the targeted jobs tax credit individuals within our company is 65 percent. That is 40 percent less than the average employee turnover.

Our managers cite two reasons for this lower turnover. No. 1, the desire of the individual to have employment, to hold a job, to earn an income. No. 2, the manager's willingness to accept a second or a third or a fourth mistake and go back to the training process with the individual.

In the past year, I have had the opportunity of presenting the targeted jobs tax credit program to over 240 restaurant managers and owners in our region of the country. In most cases, their first concern is the duration of the program.

The administration has supported a 1-year extension of the program, while Congressman Rangel of New York has supported or proposed a 5-year extension of the program. I submit that a 5-year extension will send a strong signal to the employer that TJTC is not only here today but will be here tomorrow.

A 3- or 5-year extension will make it worthwhile for the employer to invest time, money, and effort in establishing a TJTC program.

As for Morrison, Inc., TJTC has served its intended purpose, and that is to give people a boost up, especially those who are economically disadvantaged and have a hard time finding employment.

Thank you for this opportunity of making our views known to the subcommittee.

[The prepared statement follows:]

STATEMENT OF TRACY M. MCMANUS, FOR THE NATIONAL RESTAURANT ASSOCIATION

Good morning. My name is Tracy M. McManus. I am government programs coordinator for Morrison, Inc., a foodservice company headquartered in Mobile, Alabama, with operations in over 20 states. Our company operates 150 public cafeterias, 300 contract operations and the Ruby Tuesday restaurant chain.

Morrison employs 15,000 people, and we use the Targeted Jobs Tax Credit (TJTC) extensively in our operations. We estimate that from 15 to 17 percent of our new hires have been certified for the credit. We believe TJTC is an effective employment tool for hiring the disadvantaged, and I am pleased to be here today to testify in favor of its extension.

I also appear before you on behalf of the National Restaurant Association, a nonprofit trade association with 10,000 members who operate more than 100,000 establishments, ranging from full-service restaurants to fast food operations.

The foodservice industry is the country's largest retail employer—providing jobs to about 8 million people—and foodservice employers as a group are one of the largest users of the Targeted Jobs Tax Credit (TJTC). In 1980, the last year the Department of Labor (DOL) released detailed information on usage, 23 percent of all certifications went to employees in the "service" sector of the economy, which includes foodservice. The service sector was the single largest category of TJTC users, representing 38,000 jobs. (The next largest category, designated "benchwork" by DOL, accounted for 13 percent of total certifications, or 22,000 jobs.)

We estimate that total certifications generated by foodservice (and allied industries such as hotel/motels and clubs) now account for one-fourth to one-third of all certifications. The most recent Treasury figures on total credits taken indicate that foodservice accounted for $65 million in tax credits in 1980.

Although large corporations are the most frequent users of the credit, mid-sized companies and small businesses are participating in the program as well. The latter's lack of participation can be attributed to a number of factors, including DOL's lack of promotion of the program, skepticism on the part of employers who have been caught in the red tape of previous federal job creation programs and the fact that local employment offices have been unfamiliar with the program or have given it a low priority.

In general, use has increased dramatically in the last year, but a major deterrent to use among all businesses continues to be Congress's reluctance to make TJTC a permanent program. Since its inception in 1978, the credit has been reauthorized one or two years at a time, the most recent being the two-year extension in the Tax Equity and Fiscal Responsibility Act of 1982. Many businesses are understandably hesitant to begin or increase participation in a program that has a limited life, especially when it may take them several years to put their own program into effect.

Major changes were made in 1981 that also affected use of the credit. Congress, as well as the Administration, felt that TJTC had not resulted in significant new hires from among targeted groups. A primary reason for this was said to be the practice of retroactive certification—taking a credit for an employee already on the payroll. The cooperative education category was also a source of controversy. Because at the time there was no requirement that co-op students be economically disadvantaged.

These problems were taken up when Congress passed the Economic Recovery Tax Act (ERTA). Which included a one-year extension of TJTC. The issue of retroactive certifications was settled by a new requirement that all targeted individuals be certified prior to their starting date. There also was a new requirement that qualified cooperative education students be from economically disadvantaged families.

Many employers in foodservice expressed concern about these changes, since a large number of the cooperative education students were employed in foodservice. However, those companies that were serious about providing employment opportunities to targeted individuals have adjusted. There was a significant drop in participation in 1982, but certifications have rebounded in the last year.

In fiscal year 1981, the year before the changes in ERTA, total certifications were 411,581, according to DOL statistics. But in the following year, fiscal year 1982, certifications fell to 202,261. However, in fiscal year 1983, total certifications bounced back and reached their highest total ever, 431,182. If this upward trend continues, total certifications in fiscal year 1984 could very well hit the 600,000 mark.

This recent trend reflects a substantial growth potential for TJTC participation, a potential that cannot be realized without long-term extension along the lines of the Rangel bill (H.R. 5094). Historically, participation in the program has been slow to build but has increased steadily in the later years. For example, one of our larger members reports that in 1978 it hired about 200 targeted individuals. Last year the same corporation hired over 5,000.

The group that benefits the most from increased participation is the economically disadvantaged youth category. They form, by far, the largest pool for TJTC certifications. This is especially true in the foodservice industry, where 1.5 million of our employees are teen-agers. We estimate that 16 percent of all youth employed in the United States have jobs in foodservice. The majority of these jobs are entry-level, requiring little or no experience.

These jobs are particularly well suited for members of targeted groups, who often have no work experience or are unskilled. The jobs provide valuable experience and training and add to an individual's ability to advance or pursue other career goals. For targeted individuals, a job in foodservice means that first step on the economic ladder. For many who have been dependent on government subsidies, it means a chance to establish self-sufficiency and self-esteem—a chance to become a productive, tax-paying member of society.

We believe TJTC represents one of the most efficient uses of tax expenditures to create jobs. In so many industries, rising labor costs have pushed youth and other unskilled groups out of the job market entirely. Increases in the minimum wage have threatened jobs in foodservice, too, but TJTC has helped operators preserve jobs that may have otherwise been eliminated.

Although a company may take a tax credit of up to $3,000 per individual. The actual average net credit is about $548, according to a reecent study. That's a terrific bargain when one considers that under the old CETA program, five to six times that amount was spend on each individual and less than one-third of the participants were ever placed in private sector jobs.

When one compares total credits taken versus what would have been paid out in welfare, Social Security, unemployment insurance and other benefits, plus the additional revenue in federal income and FICA taxes that comes with employment. TJTC *does not* result in a revenue loss to the government.

In many cases, net savings are actually achieved, especially the hiring of the handicapped. The handicapped compromise large share of those certified for foodservice jobs, and the National Restaurant Association is proud of its efforts to place both mentally and physically impaired individuals in foodservice jobs. In just one 12-month period (July 1, 1982-July 1, 1983), more than 4,800 handicapped persons were placed in competitive foodservice employment through our Projects With Industry (PWI) program.

When a handicapped individual is taken off government aid and begins a permanent job, the savings are considerable. A general rule of thumb is that for every $1 invested in a PWI training program, $10 is realized in savings to the government. A specific example is the Easter Seal Goodwill Rehabilitation Center in New Haven, Connecticut, were last year $114,000 in federal grant money was used to train and place 155 handicapped individuals. The center estimates that the placements saved the government $594,000 in public subsidies and provided $330,000 in taxes paid by the new employees, a total savings of over $900,000.

Rehabilitation agencies report that TJTC is a powerful incentive for employers to hire the handicapped, especially if the employer has to make costly structural changes in his establishment to accommodate them. Many of these people would not be hired without the credit. And, ironically, it is becoming more and more evident that the handicapped, when given a chance, make model employees. Studies show that the handicapped have unsurpassed attendance records, have fewer disabling injuries than the average worker exposed to the same work hazards, have no effect on employer insurance costs and rate high on performance evaluations. Overall, they are stable, motivated, reliable and loyal employees.

Unfortunately, the handicapped and the other targeted groups are often viewed by employers as an "unknown quantity." Without the economic incentive provided by TJTC, many employers are not inclined to hire these individuals. Yet, as a result of using the credit, many of our members tell us they now give preference to applicants who are members of a targeted group. Other companies have set goals of hiring a certain percentage of TJTC employees each year. Still others have put the savings they realize from the credit into training program for the disadvantaged.

To let the credit expire after this year would be a severe setback in congressional efforts to provide jobs to the hard to employ. With use higher than ever, it would be tragic to end the credit now. The bill introduced by Congressman Rangel to extend the credit for five years should be enacted. A five-year extension would send a signal to employers that Congress believes providing employment through tax incentives is a sound concept and that it is willing to give employers enought time to make it work.

Chairman STARK. Thank you, Mr. McManus.

Mr. Thomas Power of the Foodservice & Lodging Institute, please proceed.

STATEMENT OF THOMAS W. POWER, GENERAL COUNSEL, FOODSERVICE & LODGING INSTITUTE

Mr. POWER. Mr. Chairman, I appreciate the opportunity to speak in behalf of the Foodservice & Lodging Institute. I serve as their general counsel.

The institute is an organization consisting of 44 major hotel and restaurant companies employing collectively over 3 million employees. I suspect, among employers, it is probably the primary user of the targeted jobs tax credit.

We include among our membership Mr. McManus' company, Morrison's Cafeteria.

I will just make a few brief comments with respect to the targeted jobs tax credit extension. We obviously support and endorse an extension for at least a 3-year period and certainly for the 5-year period if that seemed feasible.

I would like to emphasize Mr. McManus' comments with respect to longevity of eligible employees employed under the Targeted Jobs Tax Credit Program. We have consistently found that the longevity of the employee in the foodservice industry and the lodging industry employed under the Targeted Jobs Tax Credit Program is approximately three times the length of what it is for the ordinary employee.

As Mr. McManus has pointed out, there is a strong disposition on the part of the employee—and Mr. Marshall also made this point, particularly with respect to the disabled—to stay on the job, to commit themselves to the job, and it is a far greater commitment than we find among a typical rank-and-file employee who is not otherwise eligible.

There is also a strong incentive on the part of the employer, management at the unit level, to continue the employee in that position.

You mentioned, Mr. Chairman, that the record would be open. I hope to provide you with a little harder statistical evidence on that. The evidence that Mr. McManus produced, he said 105 percent normal turnover in Morrison's and 65 percent among the targeted jobs tax credit employees.

It should be pointed out, if you dealt with just new hires, for example, during this year and extended that over 2 years, that figure would probably translate to a longevity of about three times as long for the targeted jobs tax credit employee as it would for the non-targeted jobs tax credit employee.

I would also like to emphasize again the comment that Mr. McManus made about the use of employment offices, State employment offices. We found very little utilization of so-called job services offices in the past. Now virtually every major hotel and restaurant company uses with regularity jobs services or State employment offices, if you will. In other words, they are seeking the targeted group; they are not simply getting a credit from an employee that they would otherwise hire.

We emphasize, also, the value of the extension. Many companies would make more economic and better utilization of the program if we did know that it was going to last for a period of time rather than possibly expire every 2 or 3 years. If we knew it was going to last for 3 years, we would gear up for better and more economic utilization.

There has also been a point made here during the course of today's hearings with respect to the creation of jobs, if you will. It should be borne in mind that, at least in our industry, hotels and restaurants, you are talking about a service industry, and that is part of the business. If we can get help from the Federal Government through the benefit of tax incentives in this manner, more often than not it leads to an increased workforce. By that, I mean that it is better to have a cleaner restaurant. If we can add more employees to make a cleaner restaurant and still keep within our margins of labor costs, we will add them, and we do it with regularity.

I think if you made a more detailed study in this industry, you would find that we have an increasing labor cost as a percentage of sales that is made possible because of the tax credit that falls at the bottom line. For example, if we had an ordinary labor cost, let's say, of 35 percent in our industry, you can run it up to 38, 39 percent and take advantage of the tax credit and add to the service and provide a little bit cleaner restaurant, a little bit cleaner hotel room or a better policed parking lot and a little bit better service for the customer.

So we think that it results directly in the creation of jobs, not simply in the increase in the bottom line of the corporate taxpayer.

We also point out that most of the utilization of this program is by major companies; that is true. But it should be borne in mind that those companies have corporate taxes, and to the extent taxes are reduced by credits, dividends to individual taxpayers could be increased. These dividends would increase individual taxes, and so the cost impact is not quite as great as has been estimated, in our judgment, by the Treasury and Internal Revenue Service.

At that point I will terminate my remarks, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF THOMAS W. POWER, GENERAL COUNSEL, FOODSERVICE & LODGING INSTITUTE

Mr. Chairman and members of the Subcommittee on Select Revenue Measaures. We welcome the opportunity to be here today to testify as to the effectiveness of the Targeted Jobs Tax Credit and to urge for passage of a five-year extension of the program as embodied in Bill H.R. 5094, which was introduced March 8 by Congressman Charles Rangel of New York.

My name is Tom Power and I am General Counsel of the Foodservice and Lodging Institute, a trade industry group of 44 of the nation's major multi-unit and multistate hotel and restaurant companies. Collectively, these 44 companies own, operate or have franchise agreements with more than 55 thousand individuals eating and drinking establishments and employ in excess of three million persons. Every member of the Institute utilizes Targeted Jobs Tax Credit and for may, TJTC is given the highest priority in their hiring criteria. Like the Institute, our 44 members firmly believe that TJTC has been one of the most effective Federal Government programs to attack and combat structural unemployment. Since its inception in 1979, utilization has improved dramatically as more businesses have become aware of its existence. This is evidenced by the fact that for fiscal 1983, almost 1.3 million people were vouchered and 431,000 were certified; both figures were double the FY1982 levels. While we were pleased to learn that the Administration supports a further extension of the program we feel that a one year extension, as recommended in the Budget, is not enough. We were also pleased that the Senate Finance Committee included in their version of H.R. 4170, the Tax Reform Act of 1984, a three year extension of TJTC. While the Senate three year extension is by far better than the Administration proposal we believe it is incumbent upon Congress to send a message to business and industry, as well as to those unemployed individuals who can benefit from the program, that TJTC will not be abandoned. A five-year extension, as provided for in the Rangel bill, would be that message.

The Institute has appeared before Congressional Committees on this issue a number of times on both sides of the Capitol and has supported TJTC ever since its inception in the 1978 Revenue Act. Despite the continued indifference of the Federal agencies which are supposed to administer the program, despite the red-tape erected in our efforts to obtain certification for eligible individuals, and despite the empty claims by detractors that the program is a mere windfall to employers, we still believe that the program is working and working well and deserves to be extended. If it is good for eligible employees, if it is good for employers, and if it is good for the federal government, then nobody suffers. We intend to prove that TJTC is good for all concerned. We also intend to show that TJTC creates jobs, that it is not a windfall to employers, and that Targeted Jobs Tax Credit has been successful in achieving the goal Congress set for it.

The policy goals established by Congress were simple and straight forward. There are people who have a tough time competing in the job market and Congress felt that it was "appropriate to focus employment incentives on those people who have high unemployment rates and on other groups with special employment needs."[1] That is what TJTC has done.

BACKGROUND

The Targeted Jobs Tax Credit was enacted as part of the Revenue Act of 1978. Before its scheduled expiration on December 31, 1981, Congress revised TJTC and extended it for an additional year, as part of the Economic Recovery Act. Then, as part of the Tax Equity and Fiscal Responsibility Act of 1983, TJTC was again extended for two additional years. In each of these enactments, Congress also cleared up a number of controversial provisions which could have jeopardized continuation. We believe firmly that this fine tuning by Congress in the last three tax laws has made the program a better one. We believe firmly that, while responding to the concerns of members of Congress, these modifications have not only improved the overall functioning of the program but have also eliminated the stigma of the label "windfall". No longer is there retroactive certification; no longer can there be certification of eligible individuals after they've already been on the employer's patroll, and no longer can there be certification of persons who are not in need of an employment incentive in the private sector.

In addition to urging adoption of a five year extension, we urge the Congress to continue to fine tune the overall program, to continue to make modifications and to continue to respond to the concerns of critics and detractors.

THE TARGETED JOBS TAX CREDIT OFFERS A WAY OUT OF POVERTY FOR THE STRUCTURALLY UNEMPLOYED

The Targeted Jobs Tax Credit offers a path out of poverty and joblessness for persons who are economically disadvantaged and who lack the basic skills or experience to compete effectively on the job market. It removes a veil of discrimination by providing incentives to employers to take a chance they might not normally take in their hiring practices. It enhances jobs and career prospects for low income people and provides an incentive for employers to act according to self-interest while accomplishing Federal policy objectives.

Throughout my testimony today, I have included short vignettes about people who started up the economic ladder as a result of the availability of TJTC. I will not read them but I do wish to call your attention to them because they are indicative of the people TJTC was designed to help.

"Dennis is thrity-seven year old and is slightly retarded. He was hired by Saga Corporation's Education Food Service Division at South Dakota State University in August of 1982 as a TJTC eligible. He had previously worked as a janitor in the CETA program and was hired by Saga as a janitor in the school's student union. He is now working as a storeroom supervisor and has gained self-confidence and has become a valuable employee. In moving up in position, he has also received regular salary increases. It is sad to say, but he had never ever received a pay raise before."

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[1] House report 95-1445.

Over the past six years of the program, the opponents of Targeted Jobs Tax Credit have demonstrated an amazing degree of mental legerdemain.

They say it is too costly citing the $1.3 billion dollar price tag placed on the Finance Committee's three year extension. We dispute this. What this figure does not take into account the revenue gained through receipt of Federal income taxes from the TJTC eligible hired, the payment of FICA taxes, FUTA taxes, the elimination of state and local transfer payments, etc. I am sure several of the other witnesses here today will make a strong case that TJTC is revenue-neutral.

They say that Targeted Jobs Tax Credit is not being utilized. How a program can be underutilized while at the same time being too costly is beyond my comprehension.

Then, they argue that the hiring of a "targeted group" member can mean that someone else may be unfairly denied a job. With TJTC, we're trying to solve the most destructive form of unemployment—that of structural unemployment. It's not discrimination to give the discouraged long-term unemployed worker an even chance in the job market. It's not discrimination to give that same chance to disabled and handicapped people. When the President's Committee on the Employment of the Handicapped estimates that the unemployment rate among disabled persons is between 50 and 75 percent, I'm for giving them all the extra incentives they can get.

"Rudolofo Padilla is a Targeted Job Tax Credit 'graduate.' The 27 year old has been employed by the Saga Corporation since July 28, 1980 working in a food service occupation at the Industrial Indemnity Corporation's home office in San Francisco. Rudy was referred to Saga by the Goodwill Industries after completing their food service training program and gaining the necessary skills to become a full-time employee. Prior to his participation in the Goodwill program, he had participated in two other training programs sponsored by the California Department of Rehabilitation but both failed to provide subsequent employment. Prior to being employed at Industrial Indemnity, Rudy had been unemployed for more than two years."

Further, Targeted Jobs Tax Credit provides employers with an opportunity to work a little longer training people who are physically or mentally handicapped.

"Steven Hielman is a recent hire of Straw Hat Pizza Corporation through the summer Targeted Jobs Tax Credit program. Steven has dyslexia which impairs his ability to read and, therefore, jeopardized his chances of getting a job. Because of the availability of the credit he was given the opportunity to learn his job at a much slower pace allowing him to memorize the materials required for his job. Such an opportunity could not have been afforded Steven had there been no TJTC."

The critics also claim that TJTC provides only entry level jobs at or slightly above the minimum wage. To this, we say, so what! Every worker who wants a job has got to start somewhere.

We are a low wage entry level industry. It is hard work but at least it offers the non-skilled individual a foothold; a place to start. We provide entry-level jobs. As with most businesses providing entry level jobs, we anticipate a high turnover rate but no one can say that those jobs are dead-end jobs because one cannot begin the climb up the economic ladder unless one is willing to take the first step.

"Dieusung Tran was one of the Vietnamese boat people, driven from his homeland, along with hundreds of thousands of Southeast Asian refugees following the communist takeover of Vietnam, Laos and Cambodia. Like many others, although well educated, his job opportunities were hampered, first because of the language difficulties and also because of the economic climate in the United States at that time. Mr. Sung, a TJTC eligible, was hired by Saga Corporation to work at its food service facility at Seattle Pacific University in Seattle, Washington as a dish room person. While on the job, Mr. Sung also translated the company's safety information, emergency plans and safety incentives into Vietnamese for other workers. Mr. Sung no longer is employed by Saga Corporation. At present, he is a Teaching Assistant in Electronics at the college level."

There are many "TJTC graduates" who have gained enough part-time work experience while students in cooperative education programs to become productive full time employees.

"The University of Wisconsin—Oshkosh participates in a Cooperative Education and Work Experience Program through three high schools in Oshkosh. Marie Miller was employed as a student in the co-op program from September 1979 until June 1980. When she graduated from high school, she filled out a regular application and as soon as an opening occurred in April 1981, she was hired full time. During this interim she continued as a part time employee dividing her time between work and taking additional courses at Fox Valley Technical School. Marie worked as a line server for two years and has just signed for a cook's job. She has progressed rapidly in training as a cook, according to her supervisors, because of her previous training as a cook's aide while still a TJTC eligible."

TJTC critics also state, mistakenly again, that employers have not expanded their payrolls to accommodate additional workers and that the credit is a windfall—a tax credit for doing nothing.

The Targeted Jobs Tax Credit does indeed affect our members' hiring decisions. Our members go to considerable time, expense and effort to seek out eligible individuals from all seven categories. Many have hired in-house TJTC coordinators who travel about the country discussing with district, regional and unit managers ways to increase TJTC utilization. In managment training programs of our members, there are orientation sections on TJTC. Training materials are designed to recruit TJTC eligibles. Several companies motivates store managers to hire TJTC eligibles by providing cash bonuses for each eligible hired.

With strong, dedicated commitments from senior management officials, including, in some instance, presidents and chief exective officers, corporate training programs for management personnel have been set up to include extensive discussion on TJTC. In several instances, member companies have changed corporate hiring policies—one company which hired only persons over 18 years of age changed that policy to include 16 and 17 year olds and then created new jobs within their establishments for 16 and 17 year olds to fill. On December 31, 1982, this company which operated 640 restaurants in approximately 17 states had hired only 120 TJTC eligibles. One year later, that number grew to 1,625 in 651 restaurants. Of those 1,625 eligibles hired, 230 were 16 and 17 year olds.

Another company testified at the Senator Finance hearings that they spent, in 1983 alone, $853,000 in training TJTC employees and hired 6,366 employees under the program. They paid this group of employees $11.5 million in compensation.

As an industry, we have tried to fill the void created by the indifference of Federal agencies mandated by Congress to administer the program by instructing our members, as well as non-members regarding methods to seek out eligible individuals. We have urged continuously over the past several years, for the Internal Revenue Service to finalize their proposed rules regarding application of TJTC. They are still not final. Our members have spoken before industry and community groups sharing with all of them our employment strategies with respect to TJTC.

In furthering the TJTC program as a whole, our members have also been able to develop a closer rapport with community groups in areas where they have operations. Several companies have developed cooperative agreements with community self-help groups and community organizations which work to develop job opportunities for disadvantaged individuals.

For the record, I have attached to this statement a list of several of the organizations with whom our members have been working. This list is, by no means, complete, rather it represents a cross-section of representative-type groups.

While the critics say that they are committed to full employment, I am reminded of the words of Heywood Broun: I have known people to stop and buy an apple on the corner and then walk away as if they had solved the whole unemployment problem.

We sincerely hope that this Committee and the Congress will extend the entire program for five additional years. The five-year extension is absolutely essential if Targeted Jobs Tax Credit is to accomplish what it is intended to do. As we have seen in the past, there was a substantial reduction in utilization during the final year of the program each time it was due to expire. Businesses that want to become involved with the program on a full scale basis are apprehensive about spending the time, money and resources necessary when they believe the program will expire. A fine year extension will send those businesses a message that Congress will not let the program die.

We would be happy to answer any question you may have.

ATTACHMENT

COMMUNITY SELF-HELP GROUPS WITH WHOM FLI MEMBERS HAVE WORKED TO DEVELOP JOB OPPORTUNITIES FOR DISADVANTAGED INDIVIDUALS

Goodwill Industries, San Francisco, CA.
YMCA Refugee Job Service, San Francisco, CA.
Chinatown Resource Development Center, San Francisco, CA.

Center for Southeast Asian Refugee Settlement, San Francisco, CA.
Mayor's Committee for the Employment of the Handicapped, San Francisco, CA.
Mount Diablo Rehabilitation Services, Pleasant Hills, CA.
Greater Washington Board of Trade, Washington, DC.
AFL-CIO Appalachian Council, Charleston, WV.
Alcohol Rehabilitation Center, State of Maryland.
Project Breakthrough (Parole/Probation), State of Maryland.
New England Association of Business, Industry and Rehabilitation, Woodbridge, CT.
Ability Center of DATAHR, Inc., Danbury, CT.
The Constructive Workshops, New Britain, CT.
Easter Seal Community Job Shop, Waterbury, CT.
Easter Seal Goodwill Industry, New Haven, CT.
Easter Seal Rehabilitation Center in Norwich, Stanford, Bridgeport, and Hartford, CT.
Divisions of Vocational Rehabilitation in Hartford, Waterbury and Bridgeport, CT.
WIN Programs in Bridgeport, Bristol, Hartford, Meriden and Manchester, CT.
Parents and Friends of Retarded Citizens, Bridgeport, CT.
Repond Inc., New Haven, CT.
Urban League of Greater New Haven, New Haven, CT
Aces Academy, Hamden, CT.
Association of Retarded Citizens, Hartford, CT.
Minority Employment Program, Springfield, MA.
Springfield Urban League, Springfield, MA.
New England Farm Workers Council, Springfield, MA.
New England Farm Workers Council, Holyoke, MA.
Welfare Service Office, Westfield, MA.
Welfare Service Office, Greenfield, MA.
Employment Training Program, Holyoke, MA.
Welfare Service Office, Springfield, MA.
Welfare Service Office, Pittsfield, MA.
Private Sector Summer Jobs Program, Springfield, MA.
Incentive Community Enterprises Inc., Northhampton, MA.
Career Development Services, West Springfield, MA.
Prospect House, Worcester, MA.
Opportunities Industrialization Center, Boston, MA.
Jobs for Youth—Boston, Inc., Boston, MA.
Cornerstone House, Boston, MA.
Urban League of Eastern Mass., Boston, MA.
Job Matching Center, Waltham, MA.
Association for Retarded Citizens, Waltham, MA.
Center for Occupational Awareness, Chelmsford, MA.
East Middlesex Industries, Stoneham, MA.
Project Triangle, Inc., Malden, MA.
Unitas, Inc., Lowell, MA.
N.A.A.C.P., Hyannis, MA.
Cape Cod Tech, Harwich, MA.
Jobs for Bay State Graduates, Taunton, MA.
Pride Workshop, Cambridge, MA.
New Bedford Consortium, New Bedford, MA.
National Research & Demonstration Institute, Waltham, MA.
Alcohol Rehabilitation Center, Jackson, MS.
Vocational Rehabilitation Center, Norfolk, VA.
Ohio Rehabilitation Services Commission, Dayton, OH.
Work Release Program, Columbia, SC.
Work Release Program, Florence, SC.
Goodwill Industries of North Florida, Jacksonville, FL.
Roosevelt Warm Springs Institute for Rehabilitation, Warm Springs, GA.
Learning Skills, Houston, TX.
The Rehabilitation Institute, St. James, NY.
New York State Commission for the Blind and Visually Handicapped, Hempstead, NY.
Nassau County Probation Dept., Mineola, NY.
Suffolk Assn. for Children with Learning Disabilities, Dix Hills, NY.
The Friendship House, Hackensack, NJ.
Community Mental Health Operations, Paterson, NJ.

Urban League of Westchester County, White Plains, NY.
Urban League of Englewood, Moorestown, and Newark, NJ.
Farm Worker Opportunity, Allentown, PA.

Chairman STARK. Thank you.

Ms. Pappas, representing the American Hotel & Motel Association, is our final witness. Please proceed.

STATEMENT OF MARY ALICE PAPPAS, MANAGER OF HUMAN RESOURCES DEPARTMENT, KAHLER CORP., ON BEHALF OF THE AMERICAN HOTEL & MOTEL ASSOCIATION

Ms. PAPPAS. Thank you, Chairman Stark, Congressman Duncan.

I am manager of human services, development, and administration for the Kahler Corp., a Minnesota-based hotel company. Today I am in Washington representing the hotel industry and asking you to support extension of the TJTC Program.

My organization has supported this Government program since its inception in 1979 by providing jobs, training, and benefits to employees who previously possessed limited skills and had great difficulty in securing and maintaining jobs.

I know that this program assists those it was intended to help. My organization's statistics indicate that 35 percent of the jobs we have provided have gone to employees who are physically or mentally handicapped. An additional 30 percent of the jobs have gone to employees who are on the Nation's welfare rolls. Another 24 percent of the jobs have been filled by youth in cooperative education programs.

Today I feel that I am also unofficially representing the beneficiaries of the Targeted Jobs Tax Credit Program. For a moment, I would like to share with you two of the many successful experiences we have had in working with the program.

In 1978, John came to us from a sheltered workshop environment. Nineteen years of age and mentally retarded, he proved to be a reliable, conscientious employee. He has been promoted from a dish machine operator to a bus person in one of our fine dining rooms.

He is involved in community activities, has received the Jaycee of the Month Award, and recently submitted a list of 42 names of people in our company he values as special friends. I want you to know the chairman of the board was included. [Laughter.]

At an employee recognition dinner a month ago, John received a service award emblem for 5 years of service with our company. As he received his award, he was met with thunderous applause from 400 fellow employees.

And now I would like to talk to you about Manuela. She was 23 when she joined our organization in 1979. She had been divorced during her pregnancy, was raising her 3-year-old child on her own, and was on welfare.

Today she is described as irreplaceable by her manager. She has been promoted to the position of supervisor and continues to be a candidate for further advancement in our company.

I am convinced that without a program such as the Targeted Jobs Tax Credit Program, John, Manuela, and other beneficiaries of this program might not have had the opportunities to be hired, be trained, develop new skills, increase their self-confidence and feelings of esteem, receive a paycheck and benefit package, and have further chance for advancement.

The Targeted Jobs Tax Credit Program has fulfilled its original objectives by employing certain targeted groups that have historically been low income, had difficulty finding jobs, and whose employment should be encouraged.

In summary, the hotel industry and my company, the Kahler Corp., favor extension of this program because it has met its objectives and it has proven to be of benefit to many members of our society.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF MARY ALICE PAPPAS, ON BEHALF OF THE AMERICAN HOTEL & MOTEL ASSOCIATION

I am Mary Alice Pappas, Manager of Human Resources Department for the Kahler Corporation. The Kahler Corporation owns 9 hotels, is based in Rochester, Minnesota and is a member of the American Hotel & Motel Association (AH&MA). I am testifying on behalf of the Association.

The American Hotel & Motel Association is a federation of hotel and motel associations located in the fifty states, the District of Columbia, Puerto Rico and the Virgin Islands, having a membership in excess of 8,200 hotels and motels accounting for over one million rentable rooms. Inclusive in our membership are all of the major hotel and motel chains.

The hotel/motel industry considers the targeted jobs tax credit an effective stimulus in the hiring of people in the various targeted groups. The credit encourages our industry to hire more people spend more time training them and specifically to hire those who often have difficulty entering into a career. The tax credit benefits our companies, benefits the country, and helps the people who are hired.

It is important that the credit be extended so that our companies can plan and predict their hiring practices. This tax credit is the perfect catalyst to get private industry involved in helping unemployed youths and others to become part of the job market.

To put the tax credit into some perspective, the following are some excerpts on employment in the lodging industry as discussed in a study on the lodging industry conducted by the national accounting firm of Laventhol & Horwath and completed in July, 1982.

The average annual rate of increase in employment in the lodging industry from 1977 to 1981 was 4.2 percent, according the U.S. Bureau of Labor Statistics. The same source estimates the average number of employees in the lodging industry during 1981 was 1,075,700. The number of production or non-supervisory positions was 984,900 or almost 92 percent of all workers. The following breakdown, by job category, emphasizes the high percentage of semi-skilled and unskilled workers in this industry.

1981 ESTIMATED LODGING INDUSTRY EMPLOYMENT BY JOB CATEGORY

Job category	Number of employees	Percent of total
Professionals and managers	86,000	8
Sales and clericals	172,100	16
Production and maintenance	75,300	7
Service:		
Housekeeping	301,200	28
Food and beverage	387,300	36
Other	53,800	5
Total	1,075,700	100

Source: U.S. Bureau of Labor Statistics.

Lodging industry operators have cited labor costs as one of the industry's fastest growing expenses. Total industry wages were approximately $8.3 billion, or 28.6 percent of total revenues, in 1981. A major factor contributing to these escalating costs has been average hourly earnings which increased at an average annual rate of 10.0 percent from 1977 to 1981.

To counteract wage increases, employers have hired employees at a less rapid pace. Lodging industry employment increased at an average annual rate of 4.2 percent, 1977 to 1981. Another practice has been to hire more part-time workers.

Statistics which reflect employment trends are summarized below:

LODGING INDUSTRY EMPLOYMENT AND WAGES, 1977–81

Category	1977	1981	Annual average increase (percent)
Number of employees	913,000	1,075,700	4.2
Average hourly earnings	$3.31	$4.85	10.0
Average weekly hours/employee	31.2	30.6	(.5)
Average weekly eqrnings/employee	$103	$148	9.5
Total industry wages (billions)	$4.903	$8.302	14.1

Source: U.S. Bureau of Labor Statistics.

Experience at The Kahler Corporation, which we believe is similar to other hotel companies, indicates that the Targeted Jobs Tax Credit Program has fulfilled its original objectives in the followings ways:

(1) By employing certain targeted groups that have historically been low income, had difficulty finding jobs, and whose employment should be encouraged.

(2) By providing members of these targeted groups opportunities for training, developing new skills, increasing their self-confidence, and receiving a paycheck and benefits.

(3) By providing, in many instances, a springboard for employee advancement and a solid base for remaining in the nation's ranks of employed citizens.

(4) By providing an incentive to employers that balances the need for increased supervision, longer training and skill development timetables, and special supervisory communications and training regarding this governmental program and its use.

In summary, the hotel industry and The Kahler Corporation favor extension of the Targeted Jobs Tax Credit program because it has met its objectives and has proven to be a benefit to many members of our society.

Chairman STARK. Thank you very much.

We have heard testimony today from several people in industry and I think generally from people representing handicapped groups and from employers, and it is, I think, generally accepted that a handicapped person can be a prized new hire because they will put forth the extra effort to do a good job, and perhaps their tenure is longer than the average employee; and therefore enlightened employers will go out of their way to hire a handicapped employee if they can qualify them to the job. Is that fair?

Mr. McMANUS. Fair, yes.

Chairman STARK. All right. Second, I think it is fair—perhaps this may be somewhat regional, although I don't mean certainly the South, certainly not Tennessee or Alabama—but I do suspect, or I have the suspicion, that most of the entry-level jobs in the food and hotel industry would be at the minimum wage, at least beginning jobs. Is that correct?

Mr. McMANUS. I would say the majority, yes.

Chairman STARK. Now, here is my problem, and I am sure that the Morrison Co. is doing an excellent job, but I just cannot make these numbers come out just right. If your testimony is that you had 600 people taking advantage of this credit, and depending on whether they worked a year or two, the Morrison Co.—and I don't really want to know how big they are—got between $2.7 million and $3.6 million for hiring people that probably are the best out of the available pool anyway, and at the lowest possible wage.

Now, the other testimony today is that we have got 10 times more people applying for those jobs than there are jobs. I guess what I am saying is, it appears somewhat that the Government is giving to Morrison's, or any other company in the same situation, somewhere between $2 million and $3 million for doing that which they would, as a good, efficiently run company, do anyway: One, select the best people out of a pool of unemployed that far exceeds their number of openings; and, second, pay them at a minimum wage, which is what the law says we are going to have to pay them, anyway. That is one of the problems.

I mean, if I could be sure that those 600 jobs were 600 jobs you weren't—if you were going to start a new restaurant with this $2 million, but I don't think you can—it would probably cost you a lot more than that—but that is the one thing that is missing, at least as far as the Chair is concerned, is that for responsible corporate citizens who are obeying the law and following what is good social responsibility for a corporation, and we are giving you the extra money, but we are not somehow—first of all, I don't know how we are getting irresponsible corporations to do what they ought to do, and I might rather give you the $2 million or $3 million and say, create some new restaurants with it. Get some training programs. Get a special restaurant that does nothing more than—there are several of those in my district, as a matter of fact. The entire restaurant is staffed and operated by mentally retarded individuals, just as a demonstration project and training project. Somehow I get much more enthused about that than just giving you the $3 million.

I am sorry to pick on you. You are the last witness of the day. But how do you respond to—what is a better way? I mean, how can I make sure that you use that $3 million or $2 million or whatever it is, or if it is only 54 percent as somebody has indicated, to create more jobs?

Mr. McManus. Your comments have brought several examples to mind. I would like to touch on just basically one or two.

You mentioned the possibility of an employer increasing the number of establishments. In fact we have. It is a very good feeling to walk down the hall of your office and be approached by the president of your company and taken by the arm and having him state to you that if it weren't for the fact that you are here and promoting this program and hiring people through TJTC and saving our company, in an economically depressed or hard time, a little over what you are saying nets out to about $1.2 million in actual savings, we would not have been able to build an additional cafeteria last year.

Chairman Stark. Do you really feel that that money went into a capital expansion program? How many jobs did that additional cafeteria create?

Mr. McManus. Sixty new jobs, on the average. And I do feel that it actually did create capital investment. Our company is what is known as the largest wholly owned cafeteria company in the world, and we would like to keep it that way because we like the bragging rights. [Laughter.]

We expand as often and as much as we can. We have had to cut back expansion considerably in the last 3 years. Our president does not like that. TJTC has in fact given us the opportunity to build a new cafeteria each year at $1.5 million investment.

We have a cafeteria in the city of Titusville where the NASA operations are in Florida. In 6 years now, it has never made a profit. It was slated on the boards this year to close.

I was contacted by the manager of that operation, and he said, "Look, we need to keep it open. I know we can make a profit, but we have to show our president, show our board, that there is something here."

We sat down and worked up the TJTC figures, and we proved that by keeping the cafeteria open and by hiring people who were TJTC qualified, if nothing else, the corporation could break even by keeping the cafeteria open, and to date, Titusville is still open and it is no longer slated to be closed.

Mr. DUNCAN. Well, what will happen at the end of the first year of your TJTC program?

Mr. MCMANUS. Excuse me?

Mr. DUNCAN. What would happen if the targeted jobs tax credit program were to end?

Mr. MCMANUS. I hope it will continue to stay open.

Chairman STARK. There is only one trouble, I guess, Mr. McManus, and that is, of the $1.2 million. If there were 60 new jobs, it cost us $20,000 a job. Now, that may be what it costs to create a job. But in a sense, maybe we could just cut down a whole lot of this if we got to the point of somehow being able to target those new jobs.

I don't say that as criticism. I just find this a hard program to get a handle on without more numbers, and I appreciate you and your company and your trade association taking the time to be willing to share with us some numbers. If only the Labor Department were so forthcoming, it might be easier to support this program.

Mr. Duncan?

Mr. DUNCAN. I want to thank the panel. We usually save the best for the last.

I am familiar with Morrison's. You are in my area of Knoxville.

Chairman STARK. Do you have your fundraisers there?

Mr. DUNCAN. No, I have never had a fundraiser there. I would be willing. [Laughter.]

My post office box is 2030. [Laughter.]

Well, getting back to Morrison's, are most of your people female—the workers?

Mr. MCMANUS. We have a very balanced mixture there. It runs about 55-45 toward the female.

Mr. DUNCAN. You indicated in your statement you do show preference to the targeted groups for employment?

Mr. MCMANUS. Yes, we show preference in that we use agencies that normally refer to us people who are Targeted Jobs Tax Credit eligible.

Mr. DUNCAN. If they have a person who is not in any of the nine targeted groups, and one who is, will they usually refer the one who is within a targeted group?

Mr. McMANUS. Are you stating, will the agency refer them?

Mr. DUNCAN. Yes.

Mr. McMANUS. Yes. In fact, an employer can ask the agency to refer only Targeted Jobs Tax Credit eligible individuals, and in some cases our managers do ask that that happen.

Chairman STARK. Do you give your managers the choice?

Mr. McMANUS. Yes. Our managers actually operate autonomously, and that is where I sell the program to them.

Mr. DUNCAN. That is all I have, Mr. Chairman. Thank you, and thank you for a good hearing.

Chairman STARK. Thank you.

We thank the panel.

The subcommittee stands in recess.

[Whereupon, at 1:45 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF HON. HAROLD FORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. Chairman and my distinguished colleagues of the Select Revenue Measures Subcommittee. It is my honor this morning to have the opportunity to appear before your outstanding committee to testify on behalf of H.R. 5094 which would extend the targeted jobs tax credit (TJTC) for 5 more years.

I am also happy to be a cosponsor of the bill. I want to thank you for convening this hearing and for allowing me to testify on this important and crucial matter.

I would like to direct my comments toward what this act means to those who are in the program, and who probably still would be unemployed if the program had not been in existence.

I would also like to stress the need for this program to be continued in order to meet the growing needs of this segment of our society.

The targeted jobs tax credit was enacted to encourage employers to hire structurally unemployed individuals. That is, it was aimed at increasing the employment opportunities of persons who have great difficulty finding jobs both in good and bad times.

These persons typically have limited work experience and chronically low incomes. The credit has been very effective in reducing unemployment in the targeted groups.

The need to extend the TJTC program is demonstrated by the increased participation of targeted workers from FY'82 to FY'83. In 1983, TJTC created jobs for 431,182 workers nationwide.

It has been proven that the targeted jobs tax credit program is working and is making a difference. The State of Tennessee makes much use of the credit, and it is located in a region which accounts for nearly one-quarter of all certifications issued.

For example, of a total of 4,430 certifications for Tennessee, 3,193 went to economically disadvantaged youth; 482 certifications went to AFDC recipients; 261 went to the handicapped and disabled; 211 went to ex-convicts; and 272 disadvantaged Vietnam veterans were awarded certifications.

As you know Mr. Chairman, the targeted jobs tax credit has had bipartisan support as an incentive for private sector job creation for the economically disadvantaged and hard-to-employ workers. Because the credit is targeted to specific categories of disadvantaged workers, it is a useful complement to subsidized training programs under the job training partnership act. It also provides, at much less cost, a workable alternative to publc sector job programs such as those that existed udner CETA.

According to budget estimates, the targeted job tax credit will be utilized to employ more than three hundred thousand workers in fiscal year 1984, at a cost to the Treasury of $465,000,000 dollars.

This represents $1,550 per worker—the lowest cost of any Federal jobs program and far lower than the ten thousand dollars cost of a public sector job for the disadvantaged under CETA.

When taxes paid by these employed workers, plus reduced unemployment and welfare costs are factored in, the return from this investment far outweighs the cost.

As chairman of the Ways and Means Public Assistance and Unemployment Compensation Subcommittee, I am acutely aware of the hardships that unemployment, which is at its highest level since the depression, has had on the poor, and economically disadvantaged.

Almost 10 million Americans are out of work, and another 1.3 million are too discouraged to look for a job. While the administration continues to promise that better days "are just around the corner," these promises cannot pay today's food bills or rent.

The people who continue to suffer are in desperate need of the relief offered by extending the targeted jobs act, and in my opinion, this program represents a viable approach for solving some of the serious unemployment that continues to exist in our country today.

I have received numerous letters from Fortune 500 companies, Tennessee employers, and constituents who are TJTC employees urging our support of the program and the importance of its continued existence. Let me assure you that the majority of these people would not have been hired had not it been for the TJTC Program.

The TJTC Program has provided business and industry with a real incentive to create additional job opportunities for those individuals most in need. The Congress has provided a meaningful tax incentive to businesses under the program, and the business community has responded by promoting the program to the fullest extent possible. The results have ben gainful employment to the handicapped, Vietnam veterans, disadvantaged youth, SSI recipients, AFDC recipients, ex-convicts, and others who might not qualify for employment.

In the words of one Tennessee employer, "the tax advantages of this program have led us to seek employees that otherwise may not have been hired. Once on the job, the employees have proven themselves to be capable workers.

This, in turn, has led supervisors to continue their recruiting efforts. By being employed, these workers have become tax-paying wage earners, thereby taking many of them off Government assistance programs. The program also has given employees the opportunity to grow and advance within the company."

In closing, I wish to commend my colleague Congressman Charles Rangel for the excellent work he has done in crafting extension legislation for the program.

I am convinced of the benefits of the targeted jobs tax credit program to the taxpayer, the employer, and the employee. This program works and clearly encourages employers to hire persons that they otherwise would not. Like Congressman Rangel, I believe the targeted jobs tax credit act deserves a congressional reprieve from these continuous short-term extensions. I strongly urge the committee to act in favor of extending the program for 5 more years.

Thank you and all the members present for allowing me this opportunity to testify before you.

STATEMENT OF HON. JAMES M. SHANNON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

I appreciate the opportunity to let you know of my support for the extension of the targeted jobs tax credits, and my reasons for joining Congressman Rangel in introducing H.R. 5094. I think that extending the credit is one of the most important things we could do to help that segment of the population that usually doesn't receive much benefit from changes in the tax code.

As I am sure know, one of the things I have been most interested in during my tenure on the Ways and Means Committee is finding ways in which we can use the tax code to encourage the private sector to work with other sectors of our society to help address some of our pressing economic and societal needs. My equipment donations deduction legislation and employee educational assistance bill, for example, are meant to encourage cooperation between the business and academic communities to help ensure that our future workforce is adequately trained for the demands of the economy in which they will be participants. Similarly, the targeted jobs tax credit provides an incentive for the business sector to work with government employment and training agencies to bring employees into the workforce who might otherwise find their way barred. It is also one provision of the tax code that provides a real benefit to those at the lower end of the economic scale, which is another concern of mine.

We are now coming out of one of the worst recessions in our nation's history, one in which over twelve million people found themselves out of work. Many of these were otherwise employable people whose lack of work was due mostly to economic conditions; once the economy picked up and employers could afford to start hiring again, a lot of these people returned to work. But there is a segment of the population whose unemployment is due less to economic conditions than to certain disadvantages, be they economic, educational, or physical, that make it especially difficult for them to find employers willing to hire them. As long as these people cannot find jobs, there will be a certain level of unemployment, structural unemployment, that will not respond to improvements in economic conditions. Conversely, any steps we can take that will move some of these people into long-term employment will help to reduce unemployment levels, reduce expenditures for government assistance programs, and bring in more tax revenue.

The targeted jobs tax credits is just such a measure. By providing a credit against the salary of individuals falling into nine groups that are recognized as having the greatest difficulty in obtaining employment, it provides employers with an incentive to take a chance on hiring workers from those groups when they might otherwise choose not to. The incentive has all of the qualities needed to make a tax break worthwhile. It is simple; easy to calculate and understand. It is effective: depending on an employer's tax bracket, the credit can reduce the employer's marginal cost of hiring a disadvangated individual by between 24% and 37%. Most of all, it is clearly working. Hundreds of thousands of disadvantaged workers have been hired under this provision. In my own state of Massachusetts, the credit has proved to be increasingly effective in obtaining job placements for unemployed individuals, with the state Job Service placing nearly 5,000 individuals with TJTC certifications into jobs in FY 1982 and more than double that, 12,300 in FY 1983. That means that 12,300 of the hardest to place individuals, people who might never have succeeded in finding employment otherwise, are now working. And it could mean that even more people like them will find themselves working, as employers who have taken a chance on these workers and find them to be a good bet decide to hire more.

When something works that well, it is little wonder that it has been extended twice with broad bipartisan support. Now we are once again coming to an expiration date, and I think that rather than go with one or two year extensions as we have in the past, we should give the credit a five-year extension, as provided in H.R. 5094. This provision should't have to prove itself every couple of years; we know it works. The credits can operate more effectively and help more people if those who are utilizing it have the certainty to a five-year provision rather than having to continually deal with piecemeal extensions.

H.R. 5094 would also allow employers to take a credit against the first $10,000 of wages instead of the first $6,000, and would increase the amount of family income below which a family would be considered economically disadvantaged from 70% of the Bureau of Labor Statistics lower living standard to 80%. I think these changes make sense. They would make the operation of the credit more accurately reflect current economic conditions; and in addition, the change in the wage limit would encourage the credit's usage by industries paying higher salaries.

I know that our big concern these days is reducing the deficit, and that we're doing our best to keep our revenue losses as low as possible. But this is a case where we don't want to be "penny wise and pound foolish"; this is one case where we have to consider the tax expenditure involved to be an investment and look at the return. It is my belief that the return in increased employment, increased opportunities for the chronically unemployed, and reductions in the number of those who will be perennially dependent on government support is well worth the cost involved in extending this credit. I hope that the final tax bill passed by Congress will contain the Finance Committee's three year extension at the very least; and if more is possible, we should do it.

STATEMENT OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

AGC is:

More than 32,000 firms including 8,500 of America's leading general contracting firms responsible for the employment of 3,400,000-plus employees;

112 chapters nationwide;

More than 80% of America's contract construction of commerical buildings, highways, industrial and municipal-utilities facilities;

Over $100 billion of construction volume annually.

The Associated General Contractors of America (AGC) represents more than 32,000 firms, including 8,500 of America's leadig general contracting firms which are responsible for the employment of more than 3,500,000 individuals. These member contractors perform more than 80 percent of America's contract construction of commercial buildings, highways, industrial and municipal-utilities facilities.

AGC appreciates the opportunity to submit written testimony regarding the important issue of extending the targeted jobs tax credit (TJTC).

AGC believes that the TJTC offers employers a significant incentive to employ members of economically disadvantaged groups. AGC recommends that only minor administrative changes be made to the tax credit program and that the provision should be extended for a substantial period of time. AGC's suggested administrative changes reflect the unique employment practices found in construction which make tax credit certification more difficult than in most industries. A significant extension of the tax credit with minor administrative changes will provide construction employers and opportunity to make the necessary management adjustments to better utilize the tax credit and create more employment opportunities. Rules for successfully electing the tax credit have been changed too frequently in the past and have created the impression among many employers that the compliance procedures are too burdensome to be overcome. A significant commitment to continue the use of the tax credit will give these employers the justification to adjust their management practices to utilize the tax credit and create employment opportunities for members of disadvantaged groups.

Employment practices in the construction industry pose some significant compliance problems for construction contractors which are not faced by most employers. The typical construction contractor is generally required to hire employees on the day they begin work. Interviews and employment offers are usually made at the job site, not the company headquarters. If a significant number of individuals are to be hired on a specific date the company's personnel staff is generally present. When only a few positions are begin filled construction supervisory personnel assume the employment function. Smaller firms frequently overlap these responsibilities for all hiring.

Present law requires that a written request for tax credit certification must be postmarked no later than the day the employee actually starts work. This requirement poses a significant burden when construction supervisors perform the employment responsibilities. The inherent burden of reviewing the employee's tax credit qualification data is significant in these situations. In addition, merely obtaining the appropriate postmark can be difficult. Many smaller rural post offices do not postmark mail. The construction superintendent must find one that will postmark applications on the day they are delivered. The only alternative is to employ the services of a consulting firm. These firms generally use a telephone procedure to determine initial eligibility and file forms from their headquarters. The cost justification of such a service is dependent on management's willingness to adjust its operation. However, for many smaller construction firms this is not a cost effective practice. AGC recommends that the postmarking requirement be relaxed to three business days. At a minimum, AGC recommends that it be made clear that individuals hired on a Sunday or holiday may have their application postmarked on the following day. AGC members report inconsistent certifications of such applications at the local level.

AGC does not support the provisions of H.R. 5094 which would require persons seeking employment to obtain a preliminary determination of tax credit eligibility from their local job service agency in order to able to file a certification request up to five days after employment begins. Experience has shown that employees are reluctant to voluntarily classify themselves as "disadvantaged persons." AGC believes that the present format for determining credit eligibility offers employees a more dignified procedure for TJTC certification. This procedure requires only minor adjustments, not more governmental procedures. If the proposed requirement were eventually applied to all certifications, AGC believes it would significantly reduce the pool of eligible employees because of their reluctance to seek being classified as "disadvantaged".

AGC suggests that the present rule prohibiting tax credit eligibility for former employees be relaxed, AGC recommends that an individual be eligible if employment occurred before a set period of time. This time period could be based on the time employers are required to maintain employment records for current tax returns (3 years). Construction workers are frequently hired for the duration of a project. These workers expect to be employed by a number of firms during their working lives, unlike many other industries. If a sufficient period of time has elapsed since a former employment period to assure that the TJTC is not abused, an individual who is otherwise economically disadvantaged should not be denied credit certification. The open end prohibition also places construction employers in a difficult administrative position because of the sheer volume of records which must be kept due to the inherent employee turnover in the construction industry.

AGC also suggests that a de minimus employment rule be added to allow workers to be eligible for TJTC certification if they were employed previously for a short period of time. Individuals frequently enter construction in temporary labor positions. If the temporary employment is satisfactory, these individuals are frequently offered regular employment when a contractor has another project. AGC recommends that if the individual's initial work period is less than 30 days, he should remain eligible for TJTC certification.

AGC believes that the intended benefits of the TJTC have been hampered by excessively restrictive procedural rules which have created a negative impression of the tax credit for many employers. These impressions will be substantially reduced, if not eliminated, if the TJTC is extended for a substantial period under administrative rules designed to encourage the election of the tax credit without an array of traps for unwary employers. AGC believes that only modes changes to tax credit qualification rules are necessary to accomplish this and that such rules can be developed without leading to an abuse to the tax credit.

STATEMENT OF THE ASSOCIATION OF GENERAL MERCHANDISE CHAINS, INC. (AGMC), SUBMITTED BY EDWARD T. BORDA, PRESIDENT

The Association of General Merchandise Chains, Inc. (AGMC) strongly support multi-year extension of the Targeted Jobs Tax Credit (TJTC) program.

AGMC represents the Nation's general merchandise retail industry. AGMC's membership includes retail companies that operate more than 20,000 discount, variety, junior department, dollar, family center, off-price, factory outlet, catalog showroom, and other general merchandise stores. These members range widely in size and include many of the nation's largest retail chains as well as companies active in one or more regions of the country and those with only a few locations, or even a single store. AGMC member company stores are located in all 50 states and last year accounted for more than $45 billion in sales.

Many AGMC members have direct experience with the TJTC program, and know its value in promoting the hiring of persons who otherwise might not find work. Numerous companies initially became acquainted with the program through their participation in cooperative education programs, and many have in recent years stepped up their efforts to work with other TJTC category groups.

AGMC's testimony last month in Finance subcommittee hearings demonstrated how the TJTC program has given retail employers the incentive to make special efforts to employ TJTC-eligible jobseekers.

AGMC's witness in those hearings was Betty Jones, the director of affirmative action and corporate training with J.L. Hudson (a Detroit-based department store chain which is an operating company of the Dayton Hudson Corporation, a diversified national retailing group headquartered in Minneapolis). Her testimony pointed out the company's commitment had led it to hire corporate staff to advise, train and work with stores to help make the TJTC program a success.

In addition, company personnel executives work closely with local job services and community agencies not just to aid the certification process, but also to work together to identify a pool of TJTC-eligible potential workers. And store managers have a personal stake in the TJTC program's success, since the company's review of their performance takes into account the store's record on TJTC.

Other specific examples of company efforts to place hard-to-employ persons were cited by AGMC's witness in the Finance hearings. These include:

J.L. Hudson's, based in Detroit worked with the Michigan Youth Corps, which had a pool of 200,000 16- and 17-year-olds who needed jobs and had asked corporations for assistance. Hudson's called each personnel manager and let them know that the young people would be applying and to report back to the company headquarters on the numbers hired. In doing this, Hudson's was a leader in the community.

J.L. Hudson's also actively recruited TJTC-eligible persons during the mass hiring to staff a new store opening at Battle Creek, MI. Local job agencies were informed about openings, giving them an easy inroad into the new stores. When the mass hire ended, the store had over 30 percent with TJTC eligibility.

At J.A. Brown, a department store chain based in Oklahoma, the TJTC mananger volunteered for the Job Service State Advisory Board. He was able to give suggestions on how to make positive TJTC referrals from the Job Service to the stores. The manager was also able to talk about the TJTC program and make suggestions on the efficiency of the process.

Lechmere, Dayton Hudson's speciality merchandiser in Boston, has used an Education/Community Information Exchange to open lines of communication to education and community based nonprofit agencies. In that exchange, Lechmere invited community and educational organizations to attend, outlined its philosophy, priorities, hiring guidelines and anticipated growth of jobs over the next five years. The company emphasized its commitment to affirmative action and asked the education and community agencies for referrals with TJTC vouchers in hand.

Before the opening of a new Target discount store, Target Personnel asked community-based organizations to refer clients, who were vouchered on-site. That store realized over a 37% eligibility rate. At another Target store in Rochester, MN, the Personnel Coordinator actively works with the Department of Vocational Rehabilitation and the County Social Services to find certifiable candidates. Community agency representatives have toured the store and know the jobs that need to be filled.

In fact, because of its experience and understanding of TJTC, the Dayton Hudson Corporation has served as a resource for those in the Minneapolis business community wanting to learn more and become involved in TJTC. Through an organization which develops employment opportunities, the Neighborhood Employment Task Force, Dayton Hudson provides technical assistance, including training of their personnel and assisting in actually processing certificates to other companies. As a result small- and medium-sized businesses have been able to become more involved, and unemployed persons in the neighborhoods are better able to match up with companies looking for TJTC-eligible employees.

These are just a few examples of the way that the TJTC program works for Dayton Hudson and other general merchandise companies. TJTC has been shown to be an effective and worthwhile program, helping businesses of all sizes in the retail industry. In order to plan and carry out changes in their hiring and training, employers need some assurance that the program will continue to be available as they gear up to participate.

A multi-year extension of the TJTC program is needed to provide that continuity, and AGMC strongly urges that Ways and Means Committee members support H.R. 5094, a Senate-passed provision in the tax package, or other measures to extend the TJTC program for a multi-year period.

BRADLEES DEPARTMENT STORES,
Braintree, MA, April 20, 1984.

JOHN J. SALMON,
Chief Counsel on Ways and Means, House of Representatives, Longworth House Office Building, Washington, DC.

DEAR MR. SALMON: As an employer of many thousands of entry-level workers, I strongly urge the continuance of the Targeted Job Tax Credit Program.

This program has allowed us to hire and train many employees who would otherwise be on the unemployment rolls.

Sincerely,

PATRICK J. FLAVIN,
Personnel Administrator.

FOOD MARKETING INSTITUTE,
Washington, DC, April 24, 1984.

Hon. FORTNEY H. (PETE) STARK,
Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, Longworth House Office Building, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Food Marketing Institute appreciates this opportunity to present its views with respect to the proposed extension of the Targeted Jobs Tax Credit (TJTC) program. The Food Marketing Institute (FMI) is a non-profit association that conducts programs in research, education and public affairs on behalf of its 1400 members—food retailers and wholesalers and their customers in the United States and overseas. FMI's domestic member companies operate over 17,000 retail food stores with a combined annual sales volume of $130 billion—half of all grocery sales in the United States. More than three-fourths of FMI's membership is comprised of independent supermarket operators or small regional firms.

The Food Marketing Institute would like to go on record in support of a multi-year extension of the Targeted Jobs Tax Credit (TJTC) program. For the labor-intensive food retailing industry, the TJTC has proven to be a workable response to our country's problem in integrating economically disadvantaged or handicapped Americans into the national work force. Our industry believes this program to be a particularly effective approach in encouraging private sector employers to hire individuals from groups that otherwise would not be able to secure employment.

We would appreciate it if you would include this statement in the record of your Subcommittee hearings on this subject.

Sincerely,

HARRY SULLIVAN,
Senior Vice President and General Counsel.

HILLS DEPARTMENT STORES,
Canton, MA, April 13, 1984.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, Longworth House Office Building, Washington, DC.

DEAR MR. SALMON: Please allow this correspondence, which outlines Hills Department Stores strong support for the extension of the Targeted Jobs Tax Credit Program to the year 1989, to be submitted for the record.

Hills has participated in the Targeted Jobs Tax Credit Program for the past four years, and has found the program beneficial both to the individual communities and to us as an employer. Members of targeted groups, who traditionally are the most difficult to employ, have been and continue to be hired through this program. In 1983 alone, Hills Department Stores hired over 1,300 disadvantaged youths, welfare recipients, Viet Nam Veterans, and members of other targeted groups. The Targeted Jobs Tax Credit Program has helped those people get jobs, while at the same time enabling us to hire more employees than we otherwise could have.

Hills feels the Targeted Jobs Tax Credit Program is one of the most successful and cost effective government programs to encourage private sector employers to hire those in society who are most in need of job assistance. We encourage you to support the extension of this program.

Sincerely,

STEPHEN A. GOLDBERGER,
President.

STATEMENT OF THE KENTUCKY FRIED CHICKEN CORP.

Kentucky Fried Chicken Corporation (KFC) is a wholly-owned affiliate of R. J. Reynolds Industries, Inc. A Louisville, Kentucky-based international company, KFC currently operates 4,497 units in the U.S., 20% of which are wholly-owned. For most of us, the current rate of unemployment is a troubling statistic. But for millions of capable Americans it is a living nightmare.

There are minority youths, the handicapped, and veterans without marketable skills. Others come from low-income or welfare-dependent families, untrained in the discipline and dedication needed to hold a job.

Many of these disadvantaged Americans were potential symbols of a tragic new category—the permanently unemployed and unemployable. Targeted Jobs Tax Credit is a creative program that has teamed government with business, and it's working. It differs from traditional human services and welfare programs by creating assets from liabilities as tax-draining aid recipients become taxpaying job holders.

For the government, it requires providing a tax credit as an incentive.

For qualified participants, TJTC requires work and acquiring the training and discipline needed to hold a job and to advance.

For participating large and small businesses nationwide, the program requires a commitment of wages, training and patience, as well as the funds needed for trainers and educational programs.

The credit provided by the government is a sound investment. It helps transform deserving Americans who have been bypassed in our economic system or who have become victims of this recent recession. Former or potential welfare liabilities become job-holding, taxpaying assets.

According to federal statistics, since the inception of TJTC, business has put 1.3 million disadvantaged Americans to work.

The food service industry is one of the segments of American business which has been best able to implement the program. Already one of the nation's largest employers, food service is a growing industry that offers many entry-level jobs suitable for those who are willing to be trained.

Kentucky Fried Chicken is one of many food service industry leaders who have taken a positive stance in providing a primary training ground and career opportunities for Targeted Jobs employees. Its success rate in transforming the jobless disadvantaged into productive assets within America's labor pool may be one of the best. That's because Kentucky Fried Chicken has company-wide training and career advance programs that are models for the food service industry.

KFC Chairman Dick Mayer has said of the program and its results that,

"Business has an obligation to share in the solution of American problems. Targeted Jobs is an unusual opportunity to meet this obligation. While the program requires a substantial dollar investment in wages, training, and supervision, the tax credit provides enough of an incentive to encourage full and active participation.

"It is also a program open to businesses of all sizes—from those like Kentucky Fried Chicken Corporation, with nearly 1,000 company-owned outlets and 16,000 employees, to our hundreds of independent franchisees who may operate only one store with 10 or fewer employees."

Since the program began, KFC has trained nearly 14,000 TJTC-certified individuals in the basic skills needed to compete and advance in today's job market. We've provided them not only hope, but also $23 million in wages.

Today, nearly one in four of our employees is TJTC-certified. Annually, the TJTC-certified payroll exceeds $10 million.

In 1983 alone, Kentucky Fried Chicken invested well over $600,000 in its own programs to seek out and recruit TJTC-eligible individuals. Investment in training and supervision easily exceeds that amount.

Some of our areas of greatest expansion are those where America's unemployment has been highest: In the northeast and midwest, and in communities such as New York, Chicago, and Detroit, which were hit hardest by the recession.

But statistics scarcely reveal the value of Targeted Jobs Tax Credit in human terms. How can you statistically measure the value of a job to people like Roy Ballard, an 18-year-old in Pontiac, Michigan, whose substantial learning disabilities sharply limited job prospects, until he went to work for KFC under the targeted jobs program?

Or to Latarsha Favors, a 21-year-old Atlanta mother from a low-income background whose child is dependent upon her support? In less than two years, Latarsha successfully completed all Kentucky Fried Chicken store level training, and now serves as a training instructor to others.

She typifies the 232 TJTC employees who have achieved management status with annual salaries ranging from $15,000 to $25,000.

Rene Escabi learned that jobs for minority youths in New York City are hard to find. But through TJTC, he joined Kentucky Fried Chicken part-time in mid-1982. He quickly moved to full-time status and began management training. Today he is an assistant manager in the Bronx.

Kentucky Fried Chicken's experience with TJTC-employees provides a substantial lesson for businessmen who falsely assume that the disadvantaged, the handicapped, minorities, and others with no job skills are automatically a bad risk.

Thousands of KFC TJTC employees are now self-sufficient, taxpaying citizens who have proved that the government's investment coupled with Kentucky Fried Chicken's investment and training, is worthwhile.

And they are proof that the teamwork of government and business can build bridges to a better life for a deserving segment of our society, with benefits for all.

To help get Americans back to work, to break a pattern of permanent unemployability, our country needs the Targeted Jobs Tax Credit Program. We urge a multi-year extension and expansion of this program as a key part of needed long-term solutions to unemployment.

STATEMENT OF THE NATIONAL ALLIANCE OF BUSINESS

The National Alliance of Business is pleased to submit this statement on the extension of the Targeted Jobs Tax Credit to the House Subcommittee on Select Revenue Measures.

The Alliance urges support of a multi-year extension of the Targeted Jobs Tax Credit. Since the program was first enacted, its use has been constrained by uncertainty about its continued existence. Extending TJTC for more than one year provides the necessary stability that would enable employers to make longer range plans to increase their use of the tax credit as the economic recovery continues and more jobs become available. Already we see signs that some major corporations are incorporating TJTC in their long range hiring plans.

The National Alliance of Business is an independent, business-led, non-profit organization with over fifteen years of experience helping poor, unemployed youth and adults obtain productive jobs in business and industry. Each administration since NAB's founding has turned to the Alliance to continue its lead in developing and maintaining the business community commitment to resolving the unemployment problems of the economically disadvantaged. Our focus on breaking the bonds of unemployment by building working partnerships between government, business, labor, education and community groups to create training and job opportunities for the jobless remains unchanged since 1968.

The Alliance has supported the Targeted Jobs Tax Credit since it was first enacted in 1978. We believe that the general concept is sensible and that it is an effective mechanism for convincing employers to hire those people who traditionally are hard to employ because of lack of a work history or other physical or social handicap.

It is impressive that more than 431 thousand individuals were certified in 1983 as eligible for jobs using the targeted jobs tax credit, twice the number of certifications reported in 1982, and initial reports indicate a major increase in certifications for the first quarter of 1984 over the same period last year.

In addition, this past summer was the first year of an 85 percent tax credit for hiring economically disadvantaged youth. That experience alone provided an important indication that tax incentives for employers can work. Nationwide, more than 33 thousand youth were certified for jobs—many of whom would not have been hired if the credit had not been available.

An advantage of targeted jobs credit, often overlooked, is that some of the people who are hired as a result of the tax incentives to employers no longer have to rely on public assistance programs. Faced with an ever increasing cost of maintaining public assistance programs, a decrease in the number of recipients does help control or even reduce the federal government's financial burden. The tax credit results in a loss of tax revenue, but only to the extent that unemployed people go to work. The revenue loss is ultimately and almost immediately offset by a gain in tax revenue at all levels through income and other taxes paid by these newly employed individuals and from their spending of disposable income not previously available.

The Alliance's support for the extension does not mean that we think the program should continue exactly as is. We would not recommend a multi-year extension of the program without addressing three major problems that have plagued the program from the beginning.

First, the federal government and local public agencies have not always had sufficient priority or financing to make TJTC work effectively. It was only last fall that the Internal Revenue Service issued regulations for use of the program. At our annual conference in October we raised the issue personally with Treasury Secretary Regan who then promised to have them out within 45 days. He delivered on that promise November 23 when the IRS published final regulations for the period prior to 1981, and issued proposed rules for the program changes made since then. Employers can now use the tax credit for the first time with clear ground rules without fear of arbitrary administrative interpretations. However, it took us five years to move the IRS to action, and a complete set of final rules is not yet in place.

Second, is the limited effort by public agencies to acquaint employers with the program. Only a fraction of the nation's employers who could use this program have heard about it, and little has been done to inform employers about what the rules are and how it works so that they can become comfortable with it. We have done our best to try to fill that vacuum by working with the Chamber of Commerce of the United States, the National Association of Manufacturers, and other key business organizations with membership networks, to disseminate the information about the program. Copies of publications that we developed for that purpose are being submitted with this statement, for the record.

Third, and perhaps the most serious problem, is the administrative confusion on the certification side of the program. In only a few instances that we know of, have state agencies stepped in to streamline the certification process, so that employers can receive rapid assurance that their new employee is eligible and the person can begin work. If the public agencies of government are unable or unwilling to tackle this problem agressively enough to ease the administrative burden, then this Subcommittee ought to consider alternative methods of certification, including consideration for authorizing self-certification by employers, as has always been done with other employer credits in the Internal Revenue Code.

The Alliance has felt that there has not been enough attention to these problems to make the program really effective. If Congress does reauthorize the program, we ought to recognize the problems that have kept it from working as effectively as intended and remedy them in the reauthorization.

In spite of limited publicity, the program has doubled in size between 1982 and 1983. This expansion is causing other problems. For example, many states throughout the country have either run out, or are about to run out of funds with which to administer the employment service certifications of eligible individuals for the remainder of this fiscal year. The Administration has budgeted $1 billion in fiscal year 1985 for the total cost of the program which is 3 times the amount budgeted in 1982. Yet over the last three years, the same $20 million level for administration and certification has been budgeted, which shows that the program is clearly outgrowing its administrative allowance. The question, therefore, arises as to whether or not basic state grant funds for the employment service should be used to continue certifications in the program through the end of the year, which we understand is being done, or should other funding be provided?

Another question deals with the use of TJTC as an incentive combined with other employment and training programs. For example, under the Job Training Partnership Act, an eligible trainee can be placed with an employer for subsidized on-the-job training and at the same time be certified as eligible for the targeted jobs credit.

After completion of the training program, the employer can then claim the tax credit for the employee retained on the job. Many local private industry councils consider coordination with the trageted jobs credit as critical for involving employers who can provide training and placement opportunities in stable jobs for eligible individuals who are often the "hardest-to-employ".

Important procedural questions have remained unclear in these instances: Would the two-year availability of the credit begin when the employee enters training or upon completion of the training program? and would the wages paid during the subsidized training program affect the amount of qualified first-year wages that would be claimed under the tax credit?

And finally, the impact of the program has not been adequately measured. Is there a net increase or loss in federal taxes; reduction in welfare payments; and what are the types of jobs filled and the number of jobs created as a result of the program?

We propose that consideration be given to forming a special task force in conjunction with the extension, to investigate the answers to these and other important questions.

Perhaps the Ways and Means Committee could direct the Secretary of Labor to review these questions with representatives of business, labor and government. The group should also be given a specific timetable within which to work and report its findings back to Congress within six months. The Alliance would be happy to assist the Committee or the Secretary in resolving these questions for the benefit of the program.

The Targeted Jobs Tax Credit has gained great momentum since it was first enacted in 1978. Many businesses have used and continue to use it effectively. With proper management, it will continue to be a significant incentive for employers to hire individuals who need the jobs most and will start those individuals on the road to economic independence. And so, the National Alliance of Business supports efforts to enact a multi-year reauthorization.

We appreciate the opportunity to submit comments to this Subcommittee and we look forward to working with the Committee and the Congress in the future on this issue.

STATEMENT OF LARRY BROWN, PRESIDENT, 70001 LTD., AND CHAIRMAN, LEGISLATIVE AND PUBLIC POLICY TASK FORCE OF THE NATIONAL YOUTH EMPLOYMENT COALITION

Mr. Chairman, members of the Subcommittee, I am honored by the opportunity to present testimony today on the matter of extending the Targeted Jobs Tax Credit (TJTC) for an additional five years. I am Larry Brown, President of 70001, Ltd.—The Youth Employment Company, but I also represent the 29 member agencies of the National Youth Employment Coalition. I appear before you to lend strong endorsement to a multi-year extension and applaud the Subcommittee for holding hearings on this important matter.

To provide a perspective for my recommendations, please permit me to tell you a bit about 70001 and our history of training and placing disadvantaged young people exclusively with private employers.

For the past 14 years, 70001 has been preparing a very special group of young people—high school dropouts—for the world of work. Since 1976, when 70001 organized as a private public service corporation, some 20,000 young high school dropouts have placed into jobs with private employers. This figure represents 80 percent of those who complete training.

We achieve this success despite enrolling youth who face serious obstacles to employment. Most of the young people in the 57 programs in the 70001 network are 18 years old or younger, from minority groups and female. Almost one-third are parents and 7 percent have more than one child. More than 30 percent are from families receiving AFDC payments; half are from families in which neither parent graduated from high school. Eighty percent read below a ninth grade level and many are functionally illiterate. Few have ever held a job for more than two months and more than a third have never been gainfully employed.

How, then, did 70001 place more than 1,500 of these young people into jobs last year? One important factor is the strong private involvement in all phases of the program. Through our National Business Associates, more than 60 major corporations and associations provide valuable guidance, direction and financial support. Locally, hundreds of business men and women advise program staff.

The Targeted Jobs Tax Credit is a powerful incentive and invaluable tool in 70001'a efforts to place disadvantaged youth. Putting these youngsters to work certainly requires a well designed and well managed training program, but still these youth represent risk to a potential employer. That risk equates to cost and the TJTC often can serve as the determinant which mitigates the cost.

It is no exaggeration to say that without TJTC, 70001's task of placing youth would be immeasurably more difficult. Let me offer some examples:

In Indianapolis, 90–95 percent of participants are TJTC eligible. Among the employers there who have taken advantage of tax credit are the Eli Lilly Company, the Hyatt Regency hotel, L.S. Ayers Department Store, Kiwanis International, and Pizza Hut. At the Hyatt Regency alone, seven graduates from 70001 have been hired with the aid of TJTC. All started work earning $3.80 per hour.

In Wilmington, Delaware, 85–90 percent of the participants are TJTC-eligible and several employers actively recruit them. These include Wilmington Drygoods, the city's major retailers and American Scrap Metal Co.

TJTC is a major job placement tool in the other 55 programs in the 70001 network. But TJTC's impact is best illustrated in human terms. Allow me to share with you just two examples:

In Hanover, Pennsylvania, 21-year-old Louis Lowe completed his 70001 training and was hired by Keystone Seneco, Inc. at a starting salary of $5.25 per hour. His employers say TJTC was a major factor in the decision to hire Louis. Seven months after starting work, Louis has already earned one raise and is in line for a promotion to machinery maintenance supervisor.

Dan Staples of Indianapolis had been jobless for two years when he enrolled in 70001. As a Vietnam-era veteran, he was eligible for TJTC. Midwestern Tree experts hired him claiming the tax credit in the process. Now Dan is earning a good salary in the sales department and has married.

These are just two of the many thousands of men and women who have become active participants of the American workforce after being trained by the member agencies of the National Youth Employment Coalition and certified for the TJTC.

With that background, I am pleased to share with you the Coalition's specific recommendations.

RECOMMENDATIONS

Pass the 5-year extension

70001 and the Coalition strongly support a five-year extension of TJTC. We are not alone. Every year since 1980, the Administration has proposed elimination of TJTC. Yet, every year more than 90 percent of the Senate has voted to extend the tax credit.

The strongest argument I can make to support the extension is that it will finally send state administrating agencies the message that the TJTC is here to stay. Currently, inconsistent state administration is the biggest barrier we face to effectively utilizing the credit. This is partly the result of there being no incentive to institutionalize the certification process. A five-year extension will provide the incentive.

Furthermore, a five-year extension will add consistency to the technical implementation of TJTC. Previously, each year's extension confused employers and certifying agencies through the absence of IRS guidelines regarding employer liability and technical changes in such items as retroactive certification. A five-year extension would solve these problems and encourage wider participation.

Preserve the TJTC for summer youth employment

The Summer Youth Targeted Jobs Tax Credit is an innovation enacted last year. It worked and worked well. In its first test last summer hundreds of 70001's employers hired youth because of the TJTC. The five year extension will preserve this important summer resource.

The summer TJTC becomes a particularly important tool in 1984 as most of our major cities face cuts in the federal funds available for summer youth employment averaging 13%.

The cuts outlined below are due to a shift in allocation of formulas prompted by the Job Training Partnership Act. Formerly, funds were heavily targeted to urban areas. Under TJTC, the same number of youth will be served, but funding formulas favor rural and suburban areas. As a result, it is important that incentives such as TJTC be available to maintain the level of summer employment opportunities in cities. Active promotion of the summer TJTC in these cities could lessen the impacts of these cuts in urban areas.

SUMMER YOUTH EMPLOYMENT PROGRAMS: FEDERAL FUNDING AVAILABILITY [1]

[Dollars in millions]

Service delivery area	Summer 1983	Summer 1984	Difference	Percent difference
Birmingham, AL	$3.86	$2.63	−$1.23	−32
Mobile, AL	1.76	1.47	−.29	−16
Los Angeles, CA	12.34	11.51	−.83	−7
Pueblo, CO	.364	.692	+.328	+90
Bridgeport, CT	2.67	1.70	−.97	−36
Hartford, CT	1.70	1.65	−.05	−3
New Haven, CT	1.33	1.17	−.16	−12
Jacksonville, FL	1.90	1.50	−.40	−21
Tampa, FL	1.26	.997	−.263	−21
Des Moines, IA	1.08	1.07	−.01	−1
Chicago, IL	24.08	12.70	−11.38	−47
Indianapolis, IN	3.90	2.40	−1.50	−39
Worcester, MA	.911	.946	+.035	+4
Baltimore, MD	5.40	4.50	−.90	−17
Ann Arbor area, MI	1.70	1.40	−.30	−18
Minneapolis, MN	1.424	.885	−.539	−38
Kansas City, MO	2.20	1.90	−.300	−14
St. Louis, MO	2.85	1.80	−1.05	−37
Butte rural CEP, MT	.26	.40	+.14	+54
New York, NY	30.30	24.30	−6.0	−20
Cleveland, OH	5.16	2.99	−2.17	−42
Columbus, OH	2.50	2.40	−.10	−4

[1] Congressional Record, vol. 130, No. 13, Feb. 8, 1984.

Encourage Coordination between TUTC and other employment training activities

I recommend that the subcommittee encourage coordination between TUTC and the Job Training Partnership Act by providing community-based organizations the authority to conduct certification of TUTC eligible participants.

Such a mandate would be one more step toward creation of a truly unified system of employment training. TJTC, JTPA and vocational education—the three main components of our current job training system—were created and continue to operate in a public policy void. Each program has similar objectives and all prepare, train and place the economically disadvantaged and the handicapped. Yet, professionals in these three programs often labor in separate vineyards. With Congressional vision and leadership, we can bring about a measure of coordination among these valuable programs and begin building a comprehensive national policy of employment training.

The current lack of coordination is most pronounced in the summer. The summer jobs program, for example, has yet to forge linkages with agencies vital to its success, especially the Employment Service, which is responsible for vouchering and certifying TJTC eligibility. Having little experience in dealing with youth and overburdened with other responsibilities, the Employment Service has so far not done a good job of reaching and recruiting youth for the summer jobs program, nor has the Employment Service "sold" TJTC to employers.

70001 recommends that the Employment Service be encouraged to allow community agencies (such as 70001) to conduct the vouchering of potential TJTC-eligible youth as part of the normal intake process. At our program in Jamestown, New York, for example, the assistant director of the Boys Club which administers the program has been licensed as a TJTC certifier. As a result, all youth who enter 70001 are certified on the spot if they are eligible. Client certification is a time-consuming process easily handled by agencies that provide employment training and related services to youth. Such decentralized procedures would streamline intake and certification for disadvantaged clients, as well as service providers.

Expand TJTC to include 16 and 17 year-old high school dropouts

Streamlining TJTC procedures is important, but expanding eligibility for certain out-of-school youth is even more so. I am speaking in particular about economically disadvantaged high school dropouts who participate in training programs such as 70001, OICs of America, and others, especially those listed in the Job Training Partnership Act.

Including all community-based organizations would be an even more positive step, reaching into thousands of communities. Currently, to be TJTC-eligible youth in employment training programs must be 18-19 years old and economically disadvantaged, or 16-19 years old and enrolled in a state certified cooperative education program. Youth ages 16-17 are eligible only for the summer jobs program. It is an unfortunate irony that if these 16 and 17 year old high school dropouts were enrolled in school, and presumably better off, they would be TJTC eligible. But because they are out of school, measurably more unemployable and at greater risk, they cannot benefit from the TJTC.

The following statistics for October 1981 from the Employment and Training Report of the President clearly portray the disproportionate representation of dropouts among the unemployed:

UNEMPLOYMENT RATES

[In percent]

	Graduates	Dropouts
White	17.1	29.0
Black	53.5	73.1

Furthermore, the National Center for Educational Statistics reports that 28% of the young people who enter the ninth grade across America will never graduate, a 3% increase in the last ten years. One million youth a year are leaving school, and Aspira reports that 80% of the Hispanic youth in New York City never graduate.

Lack of educational attainment is not only reflected in the unemployment rates but also impacts earnings for years to come. The following are same important figures comparing annual mean earning of males and females [1] based on levels of educational attainment.

	Males	Females
8th grade or less	$10,244	$5,149
Some high school	12,033	5,701
High school graduates	15,900	8,063
Completion of 4 years' college	26,970	12,979

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[1] Based upon Bureau of Census "Consumer Income" table 48, Education and Total Money Earning Persons 18 years old and over, Current Population Report series, p. 60, No. 137.

Congress has made cooperative education one of the categories where 16 and 17 year old youth are eligible for TUTC and more than half of all certifications have come from that category. Unfortunately, too few economically disadvantaged youth stay in school and even fewer enroll in cooperative education programs.

When the youth do drop out, they end up in programs such as 70001 and OIC; programs very similar in design and intent to cooperative education programs. In fact, 70001 was originally a demonstration project of the Distributive Education Clubs of America (DECA). Yet, 70001 and other training and education programs have never been officially recognized as cooperative education efforts. As a result, 16 and 17 year old dropouts enrolled in our programs cannot avail themselves of the TJTC.

We implore you to erase this artificial distinction and grant TJTC eligibility to 16 and 17 year old out-of-school youth enrolled in work readiness and education programs.

Conclusion

On behalf of the hundreds of thousands of young people served by the members of the National Youth Employment Coalition, I thank you for the opportunity to share our experience and recommendations. Few of us would disagree that young people will form the foundation of our national defense and the quality of American life, but millions are in danger of being permanently left behind if they are unable to attain education, training and work. The TJTC is an essential resource in our ability to provide it.

I applaud the Chairman and Subcommittee's leadership in addressing this important issue.

70001 and the National Youth Employment Coalition stand ready to assist you in whatever way we can.

Thank you.

STATEMENT OF LARRY H. WHITT, VICE PRESIDENT OF PUBLIC RELATIONS AND GOVERNMENT AFFAIRS, PIZZA HUT, INC.

Good morning, Mr. Chairman and members of the Subcommittee. My name is Larry H. Whitt and I am Vice President—Public Relations & Government Affairs, Pizza Hut, Inc., Wichita, Kansas. I am accompanied by W. Peyton George of Miles & Stockbridge, our Washington counsel.

Pizza Hut is the largest system of pizza restaurants in the world. I expect that most of you are familiar with our restaurants with the red roof since they are located in every State of the Union, as well as in twenty-six foreign countries. Our 4,000 restaurants are about half company-owned and the other half franchised. Although we are a relatively young company, having been founded only in 1958, we have a rather unique and interesting history that I feel epitomizes the potential of our country's free enterprise system. Nowhere else on earth could two teenage brothers have taken a $600 investment and molded it into the world's largest international company in our business.

Our Pizza Huts have over 90,000 employees at any given time. The vast majority of our employees are eighteen to twenty-five years old. Last year, with the introduction of our Personal Pan Pizza, we created 20,000 new jobs system wide—mostly entry level positions. This was in a period when the unemployment rate was at a high level. Many of these newly created positions were filled with targeted job tax credit (TJTC) participants. We have utilized the TJTC program since its inception and strongly urge that it be extended for at least five more years.

For many of the TJTC employees, this is their first job ever. We teach them, in addition to the job skills, the fundamentals of being an active member of the nation's workforce. Pizza Hut, in 1983 alone, spent over $853,000 in training of TJTC employees and hired 6,366 employees under this program in our company-owned stores. We paid this group of employees over $11,500,000 in compensation. Our TJTC hires are, of course, certified as eligible and screened by the State Employment offices. We think our achievement rate with the program is excellent and I would like to highlight a few of our many success stories.

In South Dakota, a young man hired as a disadvantaged youth under this program and trained by Pizza Hut has, in three short years, been promoted four times going through the ranks as Restaurant Manager, Restaurant Training Manager and recently Area Supervisor. He recently received one of Pizza Hut's top awards for the most improved store.

In Ohio, an 18-year-old young woman hired as a disadvantaged youth now supports her entire family of 12. She has advanced rapidly through the system, from becoming a full-time employee in 1981 to Assistant Manager in 1983. She has since graduated from the program and we have gained a long-time valued employee while the government has gained a productive taxpayer.

In Indiana, a young woman started as a part-time employee under the program and has since been promoted to Production Leader. She is the head of the household and supports one child. Before joining Pizza Hut, she was receiving federal assistance under the Aid to Dependent Children program and Food Stamps. She is no longer under any federal assistance, and she is the best employee in her restaurant.

In another situation in Indiana, a 26-year-old mother was hired as a TJTC participant under the disadvantaged minority category. She has already been promoted to Production Leader, and she is no longer receiving Aid to Dependent Children or food stamps. She told her supervisor recently, "I just got tired of the government supporting me. I wanted to do it myself." With the help of Pizza Hut and the TJTC program, she was able to achieve her goal.

In Montana, working with the Vocational Placement Center, we have hired eight handicapped and/or mildly retarded employees who either had not been employed before or else had worked in sheltered environments. We, and these employees, are proud of their progress.

These examples highlight two important aspects of the TJTC program. First, many of our TJTC employees and former TJTC employees are working their way into managerial positions. TJTC employees in entry-level positions who have potential are given the opportunity for advancement. Second, other TJTC employees whose potential is achieved just by having a productive job, are given an opportunity they might not have had otherwise.

TJTC is a simple, easy to understand private enterprise stimulus. Our experience is that the program is cost effective by lowering public assistance payments and raising tax receipts when the targeted individuals begin work because of the credit. Pizza Hut, Inc. supports a five-year extension of this program.

PONDEROSA, INC.,
Dayton, OH, April 24, 1984.

JOHN SALMON,
Chief Counsel, House Ways and Means Committee, Longworth House Office Building, Washington, DC.

DEAR MR. SALMON: Ponderosa, Inc., would like to add its support to those who are urging extension of the Targeted Job Tax Credit program (H.R. 5094) for five years.

Ponderosa, Inc., through its Ponderosa Steakhouses, Casa Lupita Mexican restaurants and ESI Meats, Inc., subsidiaries, has participated in the TJTC program for several years. During that period several thousand individuals have moved into gainful employment through the provisions of the Targeted Job Tax Credit program. Many of these were individuals who might otherwise have been overlooked in the job market because of their socio-economic backgrounds, mental or physical handicaps or because of their unfamiliarity with the job-weeking procedure.

We have files of letters from our restaurant operating managers testifying to the skill and dedication which many of these employees have demonstrated on the job. They have shown that when given the opportunity, they are capable of assuming responsibility and handling the requirements posed by a for-profit institution.

Ponderosa, Inc., believes that it is in the best interest of these and future employees that TJTC be extended for a minimum of five years. It is a program which works and which offers measurable gains to our society. We urge its continuation.

Sincerely,

RICHARD D. MARTIN,
Director, Corporate Affairs.

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